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GEORGETOWN LAW

Closing the Gap: How Expanding Refundable Tax Credits Advances Affordability and Equity for Women of Color

Refundable tax credits support families with low incomes, promote racial and gender equity, and further equity in the tax code.

Refundable tax credits, including the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC), provide refunds for low-income families who have little to no tax burden. The CTC helps families meet the costs of raising children, and the EITC benefits low- and moderate-income workers and their families. Together, the CTC and the EITC lifted 6.8 million people above the poverty line in 2024. The tax and budget law enacted in July 2025, H.R. 1 (also known as "The One Big Beautiful Bill Act") made minor changes to the CTC, but not in a way to reach the children and families who need it the most.

Refundable tax credits are especially important for women of color, who face significant wage disparities compared to white women and men and make up a disproportionate share of low-paid workers. In 2023, the EITC moved 1.2 million women out of poverty, including 292,000 Black women, 534,000 Latinas and 74,000 Asian American women. The same year, the refundable portion of the CTC moved 535,000 women out of poverty, including 113,000 Black women and 246,000 Latinas.

Families with low incomes bear the brunt of the regressivity of state and local taxes as well as payroll taxes. However, federal progressive tax provisions, such as refundable tax credits, can help alleviate this burden.

The current CTC does not reach the lowest income families, and recent changes did nothing to help these families or reduce poverty.

Under current law, the CTC is worth a maximum of $2,200 per eligible child under the age of seventeen. However, the CTC is designed so that many families with low incomes cannot receive the full credit amount.

Families must have more than $2,500 in earned income (wages or salary) to receive a refund from the credit. Above that threshold, taxpayers receive fifteen cents of the CTC for every dollar of earned income. In addition, the maximum refund from the credit is only $1,700 for 2026. This means that families with low incomes, who have little to no tax liability, are not able to receive the full credit amount ($2,200).

H.R.1 expanded the CTC for families making up to $400,000 per year. (The average household income is a little over $80,000.) However, the law did not change the credit's restrictions for low-income families, and so these families remain locked out of the credit's benefits. Currently, 19 million children in low-income families are not able to receive the full CTC, including roughly 45% of Black children, 39% of Latino children, as well as 60% of children in families headed by mothers.

Children in large families—36% of children in households with at least 3 children—and who live in rural areas are also more likely to be left behind. The CTC reduced poverty by 20 percent in 2024, but H.R. 1's changes to the CTC are unlikely to reduce the poverty rate any further, because those changes do not reach families in poverty.

H.R. 1 also prevents millions of previously eligible families from benefiting from the CTC altogether. The law excludes millions of children from immigrant families from the credit, most of whom are citizens and lawful permanent residents.

Overall, these changes to the CTC decreased benefits for low-income children by an average of $100. H.R. 1's CTC changes are even more inequitable in the context of the overall law, which made historically deep cuts to Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and other basic needs programs. These cuts–which were made to offset tax breaks for the wealthiest people and corporations, and to fund the administration's cruel anti-immigrant policies–harm the same low-income families who are left out of the full CTC.

We know how to expand the CTC to cut child poverty in half and make life more affordable for families, while generating a 10:1 societal return on investment.

In 2021, the American Rescue Plan Act (ARPA) expanded the CTC by increasing the amount of the credit and removing its income and refundability restrictions, making the credit fully available to low- and moderate-income families. Child poverty fell by nearly half, to a historic low of 5.2% in 2021, driven in large part by the CTC expansion. When the expanded CTC expired, poverty rates rebounded: the latest data from 2024 show child poverty has climbed back up to 13.3%.

Experts estimate that an expanded CTC like ARPA's, or the proposal in the American Family Act (AFA), would again cut child poverty nearly in half. Under the AFA, 90% of families would be eligible for the CTC and families with children would see an average credit increase of almost $2,500 per year. The ARPA expansions also helped reduce income inequality for families of color and provided a significant boost to the incomes of single mothers.

The ARPA expansions to the CTC also allowed families to receive part of their refunds as advance monthly payments. These payments helped families manage their everyday expenses during an economic crisis. Research shows that families largely spent the credit on food, housing, and child-related goods and services, and were less likely to face food insecurity, medical hardship, or difficulty paying utility bills. An expanded credit could help families currently struggling to afford the high cost of groceries, gas, child care, and utilities.

Many parents used the CTC in 2021 to afford child care and transportation costs that enabled them to work. Fewer parents reported being unemployed due to child care responsibilities, and in one survey, a quarter of parents said that the payments helped them work. Indeed, a consistent body of research shows no evidence that the expanded CTC reduces parental work.

Beyond the immediate benefits, the expanded CTC also yields significant long-term returns. Cost-benefit analysis of a permanent CTC expansion finds that it would generate nearly $1 trillion per year of societal benefits per year through higher future earnings, improved health outcomes, reduced crime, and more. In fact, the benefits outweigh the costs nearly 10:1.

Policy Recommendations

Expand the Child Tax Credit to reach more families. Building on the success of the American Rescue Plan Act in 2021, expanding the CTC—as proposed in the American Family Act—would help families navigate the rising costs of living, reduce racial and gender disparities, and extend the full credit to the nearly 19 million children currently left behind.

Strengthen IRS capacity and program design. Future investments should focus on the Internal Revenue Service's ability to conduct effective outreach, provide taxpayer assistance, and administer the CTC and other refundable credits efficiently and equitably.

Reverse the greatest harms of H.R. 1. This includes reversing the cuts to Medicaid, SNAP, and other programs that lower costs for families. Congress should also roll back H.R. 1's tax cuts for the wealthy and corporations, increase equity in the tax code and in our economy, and expand the revenues available to invest in women, families, and communities.