

The Impact of the Enhanced Child Tax Credit on Lower-Income Households

July 2022

Table of Contents

Acknowledgments

3

Executive Summary

4

Key Findings

6

Conclusion

13

Appendix: Methodology

14

Acknowledgments



Commonwealth is a national nonprofit building financial security and opportunity for financially vulnerable people through innovation and partnerships. Black, Latinx, and women-led households disproportionately experience financial insecurity due in large part to longstanding, systemic racism and gender discrimination. Addressing these issues is critical to Commonwealth's work of making wealth possible for all. For nearly two decades, Commonwealth has designed effective innovations, products, and policies enabling over 1.5 million people to accumulate more than \$6 billion in savings. Commonwealth understands that broad changes require market players to act. That's why we collaborate with consumers, the financial services industry, employers, policymakers, and mission-driven organizations. The solutions we build are grounded in real life, based on our deep understanding of people who are financially vulnerable and how businesses can best serve them. To learn more, visit us at www.buildcommonwealth.org.



Neighborhood Trust is a nonprofit social enterprise empowering workers to take control of their finances and achieve financial health. With nearly 25 years of financial coaching experience, we blend our trusted financial guidance with innovative technology solutions and actionable financial products to help workers make their paychecks go further. Neighborhood Trust embeds our services where workers get paid, access financial services and make financial decisions. Annually we reach nearly 10,000 low- and moderate-income workers across the country. For more information, visit www.neighborhoodtrust.org.



SaverLife is a nonprofit organization leveraging data and technology to build savings and improve the financial health of our members. Simultaneously, we advocate for policies to remove systemic barriers and open pathways to economic mobility. Our members share their financial lives and perspectives with us through bank transactional data, surveys, and interviews, enabling us to engage with policy-makers, industry experts, reporters, and the private sector on how to create a financial system that works for everyone.

This report and associated work was completed with the support of:

JPMorgan Chase & Co.

Prudential Foundation

The Rockefeller Foundation

W.K. Kellogg Foundation

The views and opinions expressed in the report are those of the authors and do not necessarily reflect the views and opinions of these supporters or their affiliates.

Executive Summary

The American Rescue Plan, one of the most significant policy responses to alleviate child poverty in decades, made fundamental changes in enhancing the Child Tax Credit (CTC). In response to the pandemic, the law expanded the CTC for tax year 2021 to ensure a [minimum level of economic support](#) for all families raising children. It also adopted a form of [periodic payment](#), disbursing from July to December half the expected credit in monthly payments per child of \$300 or \$360 (depending on the child's age) and then providing the balance through tax return filing early in 2022.

[Research](#) conducted by SaverLife during the latter half of 2021, when recipients received monthly payments, documents how families used the funds to cover basic needs and to invest in their children. Monthly payments helped families afford groceries, pay rent, and pay for other essentials, but SaverLife also found that families knew the payments were temporary and were therefore unlikely to earmark the funds for larger, longer-term investments.

Commonwealth, SaverLife, and Neighborhood Trust Financial Partners (Neighborhood Trust) followed up with CTC-eligible families after most filed their 2021 tax returns. We conducted interviews and surveys to assess the impact of the enhanced credit on families' financial health. Although we focused on the second half of the CTC payment, which was delivered as a lump sum payment as part of the tax refund, we also asked recipients about their tax filing experience and what a continuation of an expanded credit would mean for their families.

We found that recipients generally received larger tax refunds than expected and that these contributed to financial stability—especially for households with incomes under \$20,000—by helping parents stay current with housing payments and pay for essential items for their children.

Our key findings include:

- Larger-than-anticipated refunds played a vital role in delivering financial stability;
- Many recipients delayed filing a return due to confusion or concerns about owing money back, but more households received tax refunds than they had expected;
- CTC payments were not a disincentive for earning through work;
- Not extending the expanded CTC puts household financial stability at risk; and
- An expanded CTC matters to those most impacted.

These findings add to the growing body of evidence that the expanded CTC is an incredibly effective mechanism for alleviating the most pressing challenges faced by lower-income households with children. We urge policymakers to take these findings into account as they consider the future of the expanded CTC.

We found that recipients generally received larger tax refunds than expected and that these contributed to financial stability—especially for households with incomes under \$20,000—by helping parents stay current with housing payments and pay for essential items for their children.



Key Findings



Larger-than-anticipated refunds played a vital role in delivering financial stability



Many recipients delayed filing a return due to confusion or concerns about owing money back, but more households received tax refunds than they had expected



CTC payments were not a disincentive for earning through work



Not extending the expanded CTC puts household financial stability at risk



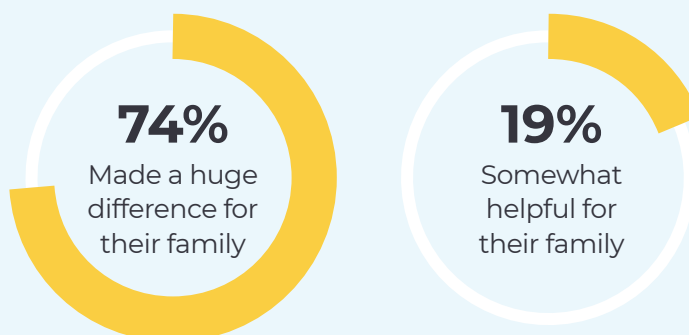
An expanded CTC matters to those most impacted

Larger-than-anticipated refunds played a vital role in delivering financial stability

A majority of recipients reported being more financially stable and able to spend more on basic household needs, save for emergencies, and keep up with essential bills. Only 5% said the CTC payments “didn’t make much of a difference.”



Impact of Payments on CTC Recipients



In May 2022, SaverLife's Member Panel survey (see [Methodology Appendix](#)) explored specific impacts of tax refunds on recipient finances:

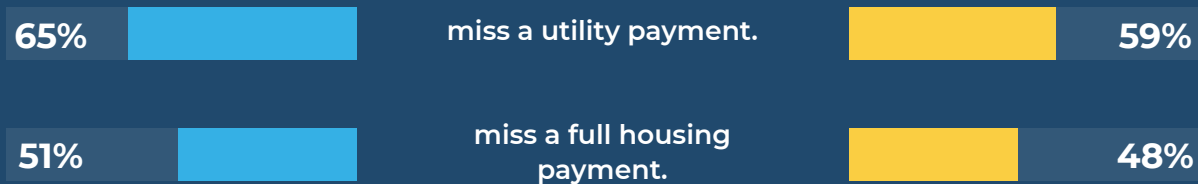
**UNDER
\$20K**

Agree/Strongly Agree

**OVER
\$20K**

Agree/Strongly Agree

My tax refund will make me less likely to...



My tax refund will allow me to...



We learned more in our interviews about the positive impact of the expanded CTC:



“Being that I’m out of work, I made sure that I paid rent up for a few months, I paid the car insurance premiums for 6 months, and I also paid my car note for 2 months. I paid off my credit cards, I had 2 Capital One cards that I was able to pay off, so basically debt, the majority went to that.”

- name withheld, NY



“It was an amazing help because I definitely was able to catch up. My gas bill had gotten really high due to things being so cold. Then my daughter’s bed broke, so I was able to get her a new one because she didn’t want to keep sleeping on a broken bed. Also, my light bill was a couple hundred dollars behind, my car note was behind, so this really set me up to be able to get me back on my feet.”

- name withheld, GA

Many recipients delayed filing a return due to confusion or concerns about owing money back, but more households received larger tax refunds than they had expected

Among the CTC recipients surveyed, 41% found the tax season more confusing than in the past. Over a third (34%) said they were more worried than usual about owing the IRS money.

The expanded CTC was one component of refunds claimed on 2021 tax returns, which could also include the Earned Income Tax Credit and other credits, as well as excess payroll withholdings. Because some newly-eligible CTC recipients do not claim those other amounts, and because some of the CTC had already been received through the monthly payments, there were concerns about owing money back at tax time.

The confusion and concerns translated into delays in return filing, with 40% saying they filed later than normal. Among these recipients, 60% cited a more confusing tax season including a lack of clear and accessible communication about the CTC, and 51% said they delayed because they were worried about owing money back.

Later return filing unnecessarily delayed access to critical income support. Among those we surveyed who had expected to have a balance due when filing their tax return, 44% received a refund.



“I found out the CTC was an advance on our return so thought I would owe, but I decided to let it be and deal with it then...I debated saying ‘don’t give me that money’ [when the disbursements started.]”

- Alyssa E., WA



“It was helpful and frightening at the same time. Like it’s always something, there were people telling you that they’re going to want it back or they’re going to take it out of your taxes, and with the government you just never know, there was just so much misinformation. So, I didn’t want to take it and then have to pay it back, but you know, given the situation I was in, I just opted to take it while it was available and figured I’d deal with what came next later.”

- A. Burke, NY



CTC payments were not a disincentive for earning through work

Consistent with other [research](#), nearly all the CTC recipients we surveyed said the advanced CTC payments had not changed their work situation and, if continued, would not change how much they worked. Among the small number (12% of respondents) who said they could work less, nearly all (83%) hoped to work less so they could care for their child, someone else's healthcare, or an elder. Recipients we interviewed talked about the relationship of the expanded CTC to work:

"Like I said, it wouldn't be no significant change [to impacting work]. I don't think anybody in their right mind would get the \$600 and say, 'Oh, I don't have to take on that extra job or upgrade my career' because going and getting a second job would make you way more money than that."

- name withheld, NY

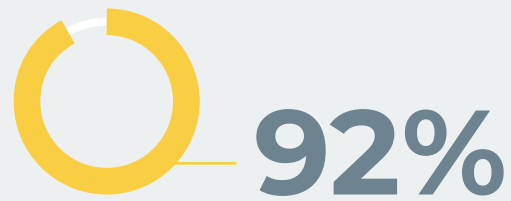
"I think I would be even happier at work because it mentally messes with you to work as hard as you do and then go home and not know whether your lights are going to be turned off, or go home and not know whether your kids are going to be taken care of...I could work for the work and love it as opposed to just working to be able to take care of my kids and pay my bills. My morale would be better because I would know that things were ok."

- name withheld, GA

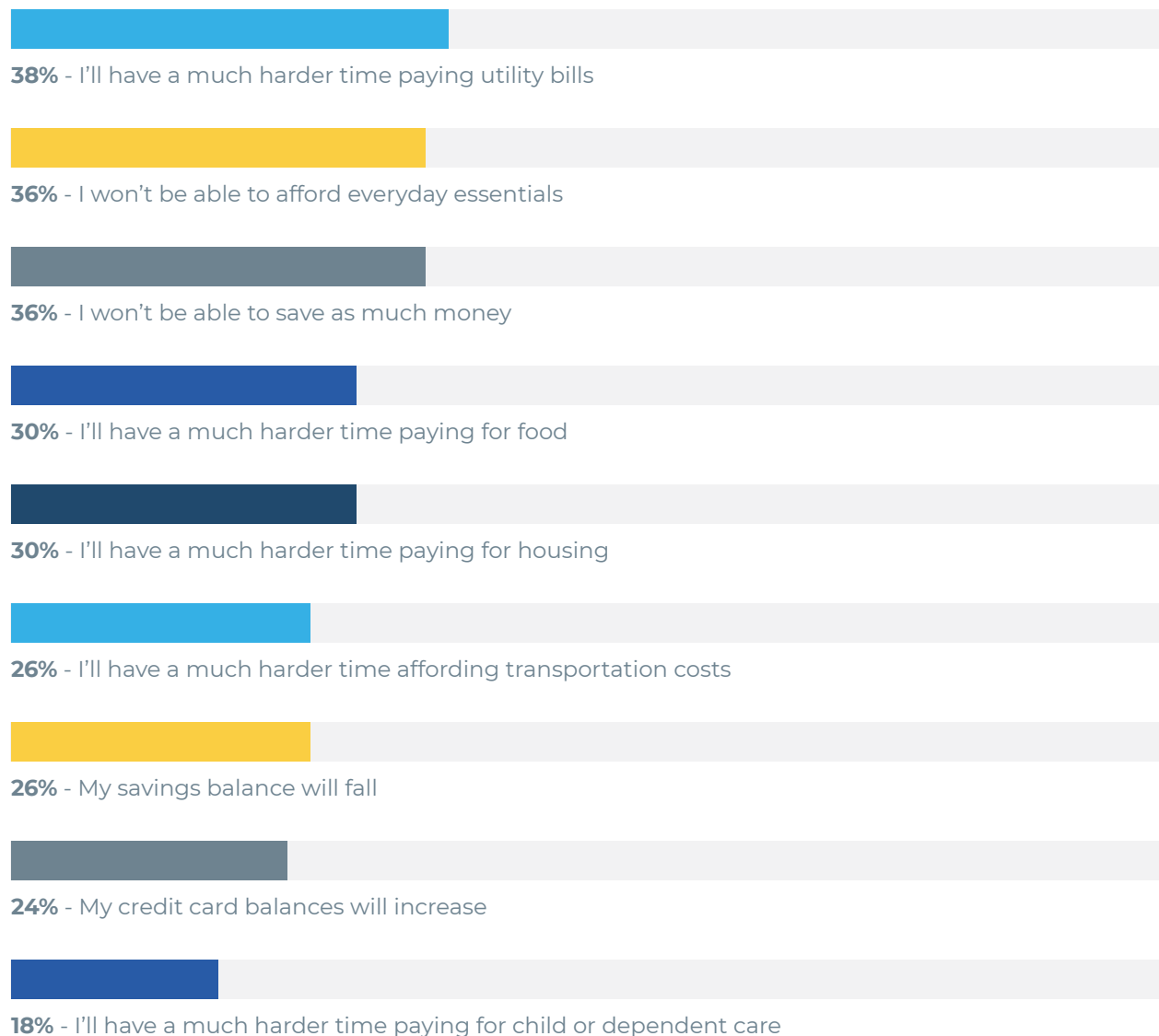
Not extending the expanded CTC puts household financial stability at risk

Although the specific effects would vary by household, the overall impact of ending the expanded CTC would be increased financial insecurity among families caring for children.

The survey explored specific effects on household finances if the expanded CTC payments were no longer available:



of CTC recipients surveyed, predicted they would be negatively impacted if the one-year CTC expansion were not continued into the future



An interviewee shared the financial challenges she is facing:

“Right now I don’t have nothing no more because I had my rent behind, I’m a single mother with two children, so most of the money I paid rent because I was 3 months behind. My rent was raised, I had to pay \$4,000 out of my pocket for my son’s braces...and I had a past due Con Edison bill that I had to pay.”

- name withheld, NY

An expanded CTC matters to those most impacted

A large majority of the recipients we surveyed (79%) said continuing the expanded CTC payments is extremely important, and another 15% said it is somewhat important. Just 4% of the recipients we surveyed said it was not that important whether the expanded CTC continued.

“[A continuation of the expanded CTC] would let me save money for my kids, be able to give them allowances, help me be able to save money for myself, like I said, put more money in my 401k, and be much happier at work. I wouldn’t feel so eager and like I can’t be myself at work because I’m here so worried that I might lose my job and not be able to make ends meet and stuff like that.”

- name withheld, GA



Those most impacted by the expanded CTC also want their voices heard. Three-quarters of those surveyed agreed or strongly agreed with this statement: “I am more likely to vote for political representatives who support the continuation of Child Tax Credit payments.”

Conclusion

Our research adds to the growing body of research that the expanded CTC is an incredibly effective mechanism for alleviating the most pressing challenges faced by lower-income households with children. Both the monthly payments disbursed in 2021 and the remaining half delivered as part of 2022 tax refunds provided critical financial stability for families, having an enormous impact on their overall financial health. By providing flexible funds, the enhanced CTC allowed families to allocate resources where they needed it most.

Our research points to how a CTC utilizing periodic payments can be improved, including clear communication to tax filers of the credit's structure and the expected amount that will be received by filing a tax return as soon as possible.

Our survey and interviews clarify how a permanent and fully refundable CTC for all low-income families would have a significant impact on housing stability, food security, and the ability to save. Its importance to families makes it a major priority for them as voters, making them more likely to support candidates who advocate for continuation of the enhanced CTC.



Appendix: Methodology

From its 5,000-member research panel, SaverLife surveyed 551 individuals with children with household incomes below \$50,000 to understand people's experience filing their tax returns, receiving their refunds, and how they used those refunds. To gain a deeper understanding of the experience of CTC recipients, we also conducted in-depth interviews with ten Neighborhood Trust clients; financial coaches identified them as having a household income in 2021 of \$35,000 or less and having received both the first part of the CTC (i.e., the monthly payments) and their 2021 tax refund, (which should have included the second part of the CTC but may not have due to filing errors). These interviews generated the recipient quotes included in this report (which are reported verbatim), helped shape the questions asked in SaverLife's survey, and provided qualitative context to the survey findings.



commonwealth

N NEIGHBORHOOD
T TRUST
FINANCIAL
PARTNERS

 **SaverLife®**

BUILDCOMMONWEALTH.ORG
22 BATTERYMARCH ST., SUITE 501
BOSTON, MA 02109