



ZERO TO THREE
Early connections last a lifetime

Child Tax Credit Expansion is a Win for Babies' Early Development

The first three years of a child's life are a time of extraordinary brain development, yet too many infants and toddlers spend these early years without the family income needed to make ends meet, many in outright poverty. During these early years, babies' brains are forming more than a million neural connections every second, laying the foundation for their future development and learning.ⁱ The environments and relationships children experience in their earliest years play a major role in shaping this early development, and family income plays a key role in shaping these early environments and interactions.

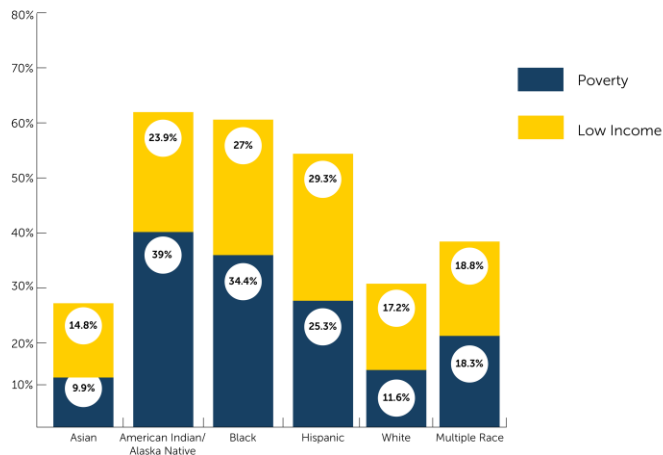
The historic expansion of the Child Tax Credit (CTC) included in the American Rescue Plan (ARP), which President Biden signed into law on March 11, 2021, will not only provide critical resources for families with babies and toddlers and lead to a historical reduction in early childhood poverty, but will also set millions of children on a stronger developmental trajectory with positive impacts reverberating over the course of their lives. Moving forward, we must sustain these improvements while taking steps to ensure the CTC reaches all children and families who could benefit from it.

By allowing persistently high poverty rates and low family incomes among the population most sensitive to its impacts, we are putting our nation's present and future at risk.

The Impact of Early Childhood Poverty on Brain Development

Unsurprisingly, given the foundational brain development occurring during their earliest years, research has consistently shown that poverty experienced in the earliest years of children's lives has a greater impact on their developmental trajectories than poverty experienced later. Early childhood poverty, especially absent the buffering effects of support from strong relationships with parents and other trusted caregivers, is associated with increased risk of toxic stress among young children which can disrupt brain development and increase long-term cognitive risks over the course of a child's life.ⁱⁱ Numerous studies have shown these effects extend to the brain's physical structure. For example, one study found that poverty in early childhood and its associated chronic stressors decreased gray matter volume in the regions of the brain associated with school readiness and achievement by 8-9 percent below developmental norms.ⁱⁱⁱ Longitudinal analyses have clearly illustrated that the negative impacts of early childhood poverty can persist well into adulthood, impacting educational attainment, later earnings, adult health, reliance on public benefits, and even arrest rates.^{iv}

Babies in Families with Low Income Below 200% FPL



Given the long-term impacts of early childhood poverty and low-family income, we should be particularly concerned that, of all age groups, infants and toddlers are at the greatest risk of experiencing poverty and low-income in the United States. Nearly 1 in 5 infants and toddlers live in families with incomes below the federal poverty line, including more than 1 in 3 Black infants and toddlers and more than 1 in 4 Hispanic infants and toddlers. And more than 2 in 5 infants and toddlers live in families with low income, including more than 3 in 5 Black infants and toddlers and more than half of Hispanic

infants and toddlers.^v

By allowing persistently high poverty rates and low family incomes among the population most sensitive to its impacts, we are putting our nation's present and future at risk. It is critical to acknowledge that the same research that demonstrates why we should be so concerned about early childhood poverty also presents a roadmap to a better future for young children and their families – namely, that boosting families' incomes when their children are young leads to improved short- and long-term outcomes for those children. In fact, one study found that a \$3,000 annual increase in family income for children in low-income families prenatal to age 5 was associated with a 17 percent increase in later adult earnings.^{vi} Collectively, this evidence suggests that the expansion of the Child Tax Credit in the recently passed ARP will not only reduce child poverty today, but will have positive benefits over the life course of today's babies and toddlers.

How the Recent Child Tax Credit Expansion Will Impact Child Poverty

The ARP included a historic, one-year expansion of the existing CTC that will put more significantly more money in the hands of families with children while the changes are active. Key changes the plan made to the existing credit include:

- Expanding the value of the credit from \$2,000 per child under age 17 to \$3,000 per child ages 6-17 and \$3,600 for children under 6.
- Making the CTC fully refundable, which will allow low-income families who do not owe federal income taxes to benefit from the full credit. The previous credit was only refundable up to \$1,400 per child, and families had to earn at least \$2,500 to qualify. This full refundability will be especially beneficial for young children, as well as black and Hispanic children of all ages. Analyses of the prior credit have shown that approximately half of Black and Hispanic children were ineligible for the full CTC, and that children under 6 were less likely to be eligible for the full credit than older children.^{vii}
- Allowing families to receive half of the value of the CTC monthly, during the tax year. Under previous law, families were only eligible to receive the CTC as a lump sum when they filed their

taxes. By allowing families to receive benefits on a monthly basis beginning in July 2021, the ARP will ensure families have additional funds available as expenses like housing payments, food, and medicine come up over the course of the year.

Providing these additional resources to families with children will reduce child poverty to a historic extent, helping families secure the resources to best support their children. Researchers at Columbia University estimated that the full ARP, including the CTC expansion, would result in a 56 percent reduction in child poverty in 2021.^{viii} The expansion of the credit alone will also have a significant impact on child poverty. An analysis of the American Family Act, sponsored by Representative Rosa DeLauro and Senator Michael Bennet and the model for the ARP's expansion of the CTC, found that these changes to the CTC alone would lead to a 45 percent reduction in child poverty, as well as a 43 percent reduction in poverty among infants and toddlers.^{ix}

For infants and toddlers living in poverty and their families, this reduction in poverty will lead to immediate and lifelong benefits. Increased resources for families now can help lead to more stable housing, better access to nutritious food, easier access to high quality child care, and reduced family stress – all of which support children's healthy brain development. The benefits of this stronger developmental foundation will reverberate over the course of young children's lives, although it is worth noting that increased cash assistance alone will not solve all the challenges families face. Investments in basic needs, parenting and developmental support, paid family and medical leave, and quality early care and education opportunities are still needed and play a similarly vital role in supporting children's healthy development.

Laying the Groundwork for the Future

While the changes the ARP makes to the CTC will be of immense benefit to millions of infants and toddlers and their families, they will only be in effect for one year without further Congressional action. Moreover, there are still many children who will be left out absent further policy change. To ensure the child development benefits of the expanded CTC last beyond this year, Congress and the Biden Administration must work together to immediately:

- Support meaningful outreach to families, especially families who may have not previously filed taxes, to ensure they are able to receive the benefits they are eligible for this year.
- Make the ARP's changes to the CTC permanent, establishing the program as a true child allowance moving forward.
- Ensure all children are eligible for the CTC. Children in immigrant families, including those with Individual Taxpayer Identification Numbers, were eligible to receive the CTC prior to the passage of the 2017 Tax Cuts and Jobs Act, which limited the credit to just those with Social Security Numbers. A permanent CTC expansion should make these children eligible again. Additionally, existing relationship test rules deny benefits to some children in the child welfare system, or who live with more distant relatives and should be revisited to ensure children who would greatly benefit from the credit are not left out.

- Protect families who receive the benefit by ensuring they are held harmless from surprise tax bills due to overpayments that are not their fault and ensuring that their benefits cannot be garnished to pay down publicly or privately held debt.

ⁱ Harvard University Center on the Developing Child. Brain Architecture. <https://developingchild.harvard.edu/science/key-concepts/brain-architecture/#:~:text=Brains%20are%20built%20over%20time%2C%20from%20the%20bottom%20up.&text=In%20the%20first%20few%20years,circuits%20to%20become%20more%20efficient..>

ⁱⁱ Harvard University Center on the Developing Child. Toxic Stress. <https://developingchild.harvard.edu/science/key-concepts/toxic-stress/>.

ⁱⁱⁱ Blair, C. and Raver, C.C. (2016). Poverty, Stress, and Brain Development: New Directions for Prevention and Intervention. *Acad Pediatr*. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5765853/>.

^{iv} Duncan, G. and Magnuson, K. (2011). The Long Reach of Early Childhood Poverty. *Pathways*. https://inequality.stanford.edu/sites/default/files/media/media/pdf/pathways/winter_2011/PathwaysWinter11Duncan.pdf.

^v ZERO TO THREE. (2021). *State of Babies Yearbook 2021*.

^{vi} Id at iv.

^{vii} Goldin, J. and Michelmore, K. (2020). Who Benefits from the Child Tax Credit? National Bureau of Economic Research. https://www.nber.org/system/files/working_papers/w27940/w27940.pdf.

^{viii} Parolin, Z., Collyer, S., Curran, M., and Wimer, C. (2021). The Potential Poverty Reduction Effect of the American Rescue Plan. Center on Poverty and Social Policy at Columbia University. <https://static1.squarespace.com/static/5743308460b5e922a25a6dc7/t/604aa2465cfc4a35b8a1c236/1615503943944/Poverty-Reduction-Analysis-American-Rescue-Plan-CPSP-2021.pdf>.

^{ix} Center on Poverty and Social Policy at Columbia University. (2021). *A Poverty Reduction Analysis*