

The Antipoverty Effects of the Expanded Child Tax Credit across States: Where Were the Historic Reductions Felt?

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The Antipoverty Effects of the Expanded Child Tax Credit across States: Where Were the Historic Reductions Felt?

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Introduction

The 2021 expansion of the Child Tax Credit (CTC) led to a historic reduction in poverty in the United States, particularly for children. Research showed that child poverty fell immediately and substantially. On an annual basis, according to the US Census Bureau, child poverty fell to its lowest level on record in 2021: 5.2 percent (Creamer et al. 2022). Moreover, the CTC benefit's monthly delivery likely reduced volatility in income and poverty; research has shown that volatility compromises family and child well-being (Hamilton et al. 2022).

The dramatic reductions in poverty induced by the expanded CTC represent positive changes to economic well-being. There are potentially larger and longer-run benefits from an increase in economic security for families with low and moderate levels of income (Garfinkel et al. 2022). Income supports enhance children's lifetime social and economic outcomes by allowing families to meet basic needs and by increasing families' income stability. Specifically, transfer programs that provide cash and near-cash supports have been shown to promote stronger educational, emotional, and health outcomes (Akee et al. 2018; Hardy 2022; Hardy, Hill, and Romich 2019; Hoynes, Schanzenbach, and Almond 2016; Rothstein and Wozny 2013).

The 2021 expanded CTC extended full refundability to families with little or no taxable income. Adults with young children between 0 and 5 years old received refundable credits of \$3,600 per child, while those with children between 6 and 17 years old received credits of \$3,000 per child. These benefit changes allowed for more of the lowest-income families—historically, those from non-Hispanic Black, Hispanic, and American Indian and Alaska Native communities (Hardy 2022)—to benefit from the program (Center on Poverty and Social Policy at Columbia University, 2021). The Census's Supplemental Poverty Measure (SPM) showed that children from all racial and ethnic minority groups experienced relatively large reductions in poverty rates, but that SPM poverty rates fell most dramatically for Black and Hispanic children. Black child poverty rates fell by 17 percentage points between 2009 and 2021, while SPM child poverty rates fell from 30 percent to 8 percent among Hispanic children over the same period (Creamer et al. 2022).

But where in the country did the expanded CTC reduce child poverty the most? It is not obvious, for example, whether the expanded CTC would have reduced poverty more or less in higher- versus lower-poverty states, or whether the degree of poverty reduction differed by the cost of living in states. Income distributions vary across states, as does the depth of poverty (i.e., how close or far families lie from the poverty line) within any given state. One well-established feature of federally administered transfer programs is that they tend to reallocate resources from

higher-income states to lower-income states. And, importantly, states vary on cost of living, which is an often-underexplored driver of poverty.

These differences across states are especially relevant today, given well-documented housing supply gaps and staggeringly high housing costs facing many families. On the one hand, some of the nation's poorest states, disproportionately situated in the South, are among the least expensive. On the other hand, these same less-expensive states tend to provide weaker safety net protections and make lower investments in education; strong safety nets and higher investments in education are two core features of successful economic mobility strategies (Ziliak 2019).

This essay investigates how the CTC affected child poverty across states. In our two primary analyses, we examine how the reduction in child poverty varies across two characteristics: state-level cost of living (high vs. low cost of living) and state-level poverty (high vs. low pretax/transfer poverty rates). We find that, although the CTC caused substantial reductions in poverty in each kind of state (i.e., high vs. low cost of living, high vs. low pretax/transfer poverty rates), poverty reductions were the highest in low-cost, high-poverty states, which are those states with a relatively lower cost of living and with a higher baseline poverty rate. It stands to reason that, when the expanded CTC sunset on December 31, 2021, those states were also where child poverty increased the most.

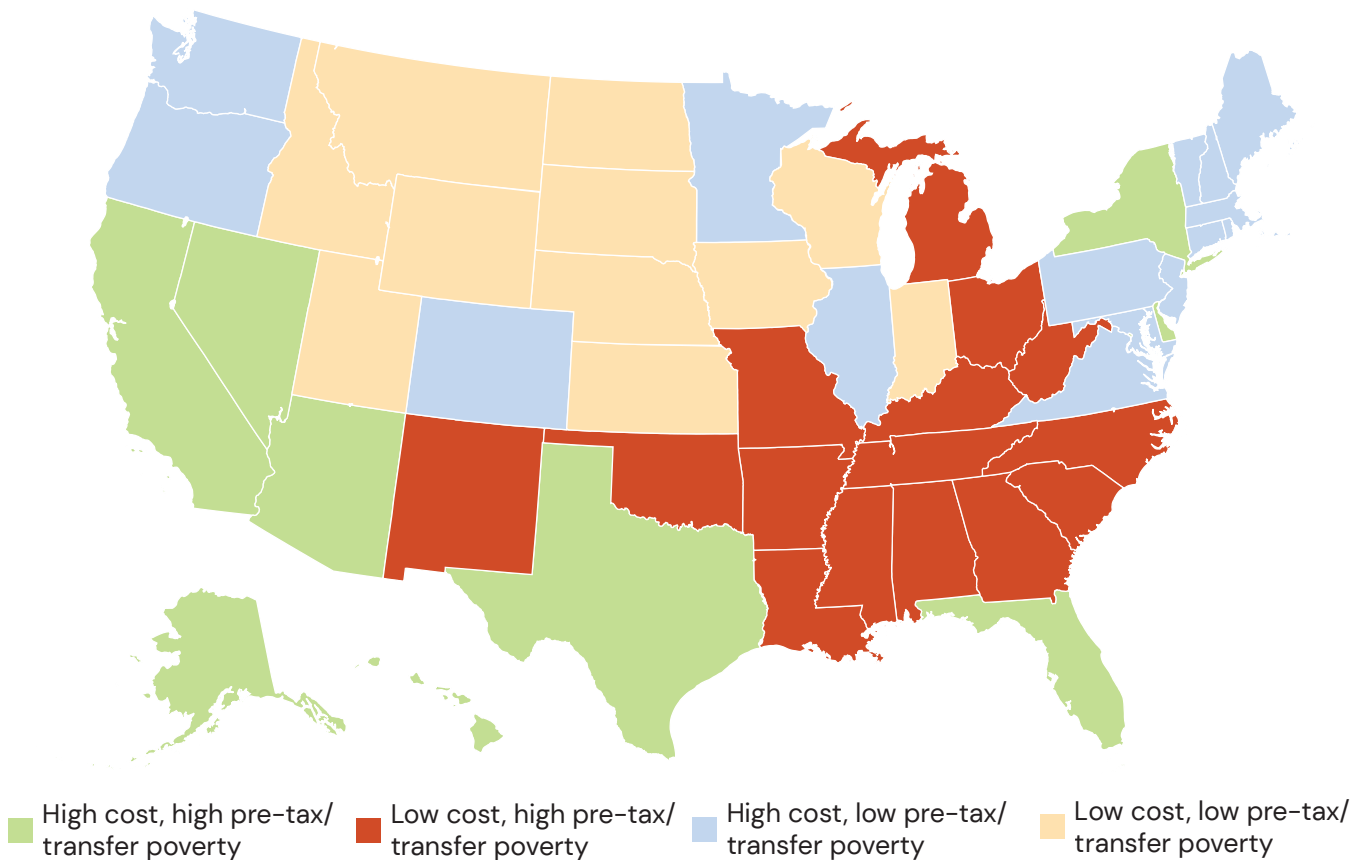
Determining State Differences in Expanded CTC-Related Poverty Reduction

Did the CTC expansion have similar or different impacts across the United States? We expect that the demonstrated shorter-term benefits of the expanded CTC, as well as the potential long-run and intergenerational economic benefits, would have distinct impacts across the United States.

While the expanded CTC represents federal policy, it operated within a system wherein states could invest or disinvest in their own populations. This leads to different contexts and potentially differential impacts across states and regions. Some states have a higher or lower share of individuals and families living near the poverty line, and some have invested more or less than others in lifting these residents above the poverty line. How did the expanded CTC's antipoverty effects play out across these vastly different settings?

FIGURE 1

Child Poverty and Purchasing Power, by State



Source: Authors' calculations.

Note: Washington DC (not shown) is grouped with the high cost, high pre-tax/transfer poverty states.

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Our Approach to Examining Expanded CTC-Related Poverty Reduction by State

Our estimates of state group poverty reduction rely on data from the 2022 Annual Social and Economic Supplement of the Current Population Survey (CPS ASEC), retrieved from IPUMS CPS (Flood et al. 2022). We use the SPM definition to document the effects of the 2021 federal CTC on child poverty. Our goal is to determine the effect that the expanded CTC alone has had on child poverty and how these effects varied by state-varying factors such as cost of living and initial poverty rates, as well as how these factors and effects varied among groups that are traditionally at risk of exclusion from the CTC.

We conduct two sets of state-level analyses of the effects of the 2021 expanded CTC. In the first, we examine impacts across groups of states that vary by the states' cost of living and by their initial level of pre-tax/transfer poverty levels. In the second, we examine impacts across states that vary demographically, particularly with regard to the proportion of children

in the state who had been previously more likely to be left behind and who did not receive the maximum CTC benefit under prior law. In both cases we investigate the role of state-level factors in generating relatively stronger or weaker child poverty reductions.

For the first analyses, why do we focus on cost of living and on the initial level of pretax/transfer poverty? We focus on cost of living, first, because the expanded credit could have lower capacity to reduce child poverty when the cost of living and, accordingly, the poverty line are higher. That is, it might take more money to raise a child above the poverty line when that poverty line is higher due to higher family costs such as housing. And we focus on the initial poverty rate before considering taxes and transfers because it could be easier to achieve greater child poverty reductions when a state's initial poverty rate is already low; that would mean there is less overall poverty for the policy to reduce and fewer children for the policy to move above the poverty line. We divide states into four groups (Figure 1):¹

- Low cost, high pretax/transfer poverty
- Low cost, low pretax/transfer poverty
- High cost, high pretax/transfer poverty
- High cost, low pretax/transfer poverty

Figure 1 depicts how the 50 states and the District of Columbia break down across the four groups in our first method of analysis. The high-cost, high-poverty states are distributed throughout the country, but include some of the largest and most populous states in the country such as California, Texas, New York, and Florida, alongside smaller and less populous states such as Hawaii and Alaska. Many of the high-cost, low-poverty states tend to be in New England and the Pacific Northwest, the low-cost, high-poverty states are generally in the South, and the low-cost, low-poverty states tend to be Midwest and Mountain states.

In order to group states as high or low poverty, we define pretax/transfer poverty by first removing from the SPM all sources of income from government transfers or the tax system and then recalculating the poverty rate.² Next, we estimate the average state-level pretax/transfer poverty rate for children.³ We calculate the median of the state-level pretax/transfer poverty rates: low pretax/transfer poverty states are those where pretax/transfer poverty is below the cross-state median poverty rate, and high pretax/transfer poverty states are those where the pretax/transfer poverty rate is equal to or greater than the cross-state median poverty rate. This grouping creates the low- and high-poverty states.

In order to group states into high and low cost, we use the cost-of-living adjustment embedded in the SPM poverty line, or threshold. The SPM poverty line varies across the country by housing costs in the area where a family lives. We define high-cost states as those where the average housing costs across the state are equal to or greater than the cross-state median housing cost, and low-cost states as those where the average housing costs across the states are less than the cross-state median housing cost. We then divide states into the four groups listed above.

In our second set of state-level analyses, we turn from cost-of-living and poverty levels to state-level demographics. Prior research has shown that various demographic groups were disproportionately more likely to be left behind: that is, to not be eligible for the maximum CTC benefit level under prior law. This set of analyses groups the states by children's demographic characteristics, which allows us to assess the antipoverty impacts of the CTC in states, based on the share of the child population falling into groups that are documented as more likely to be left behind by the federal CTC: these groups are children who (1) are Black, (2) have unmarried mothers, (3) live in rural areas, (4) are in families with young children, and (5) are in larger

families (i.e., three and more children; Collyer, Harris, and Wimer 2019; Curran and Collyer 2020). After determining the share of children in each state falling into these respective groups, we tabulate the median share across states and group those where the share was above the median as high share and those where the share was below the median as low share. For example, we show the antipoverty effects of the CTC in states where the share of the population of children who are identified as Black is at or above the cross-state median as high share and below the median as low share.

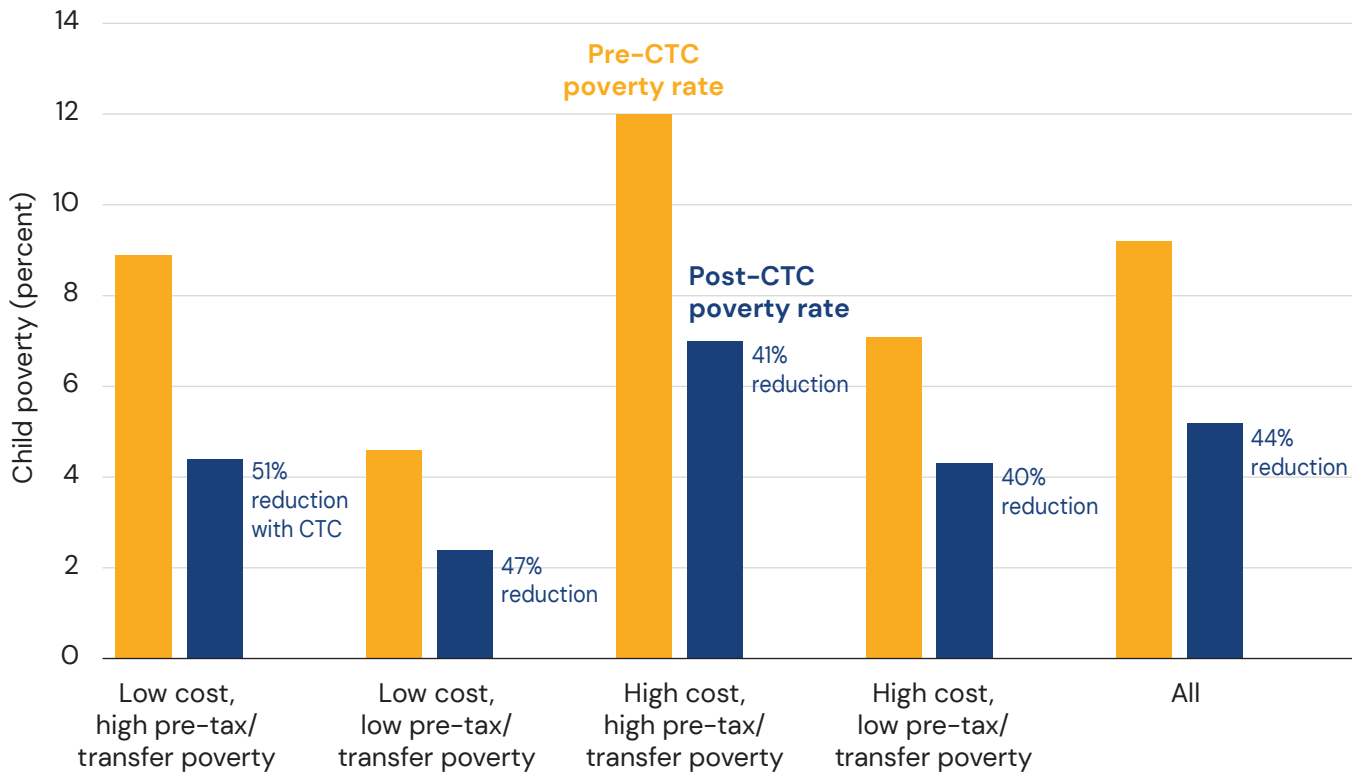
Evidence of the CTC's Impact across Groups of States

The poverty reduction effects described here are descriptive: we do not aim to disentangle or model behavioral responses to the CTC or other social welfare policy interventions. To determine the effect of the CTC on poverty, we compute a household's poverty rate, including all taxes and transfers but excluding the CTC; we then compute a household's poverty rate including the CTC. Finally, we isolate the 2021 CTC's effect on the child poverty rate by comparing the poverty rate before and after including income from the credit.

Figure 2 (with details in Table A-1) shows how the CTC's antipoverty impacts varied across states in 2021. The yellow bars represent the SPM child poverty rate when the CTC is excluded, and the blue bars represent the posttax/transfer SPM child poverty rate when the CTC is included. In the text on the figure, we identify the percent reduction in child poverty in each of the four groups of states that can be attributed to the CTC.

Turning to the impacts of the CTC, we find that the expanded credit yielded qualitatively large child poverty reductions across all state groups. The smallest child poverty reduction across groups is still 40 percent in the high-cost, low-poverty states, which is a remarkable reduction. But the magnitude of the child poverty reduction, in relative terms at least, was indeed higher in low-cost states. In both sets of low-cost states, the expanded CTC cut child poverty by about half, while in the higher-cost states this reduction was closer to 40 percent. This finding suggests that a high cost of living could be an important driver of child poverty. High-cost states might want to consider state-level credits, especially if the expanded federal credit is to be revived in the future.⁴

FIGURE 2
Effect of CTC, by State Characteristics



Source: Authors' calculations.

Note: Percent reductions reported on the figure show the change from from the pre-CTC poverty rate to the post-CTC poverty rate.



Evidence of CTC's Impact by State and Household Characteristics

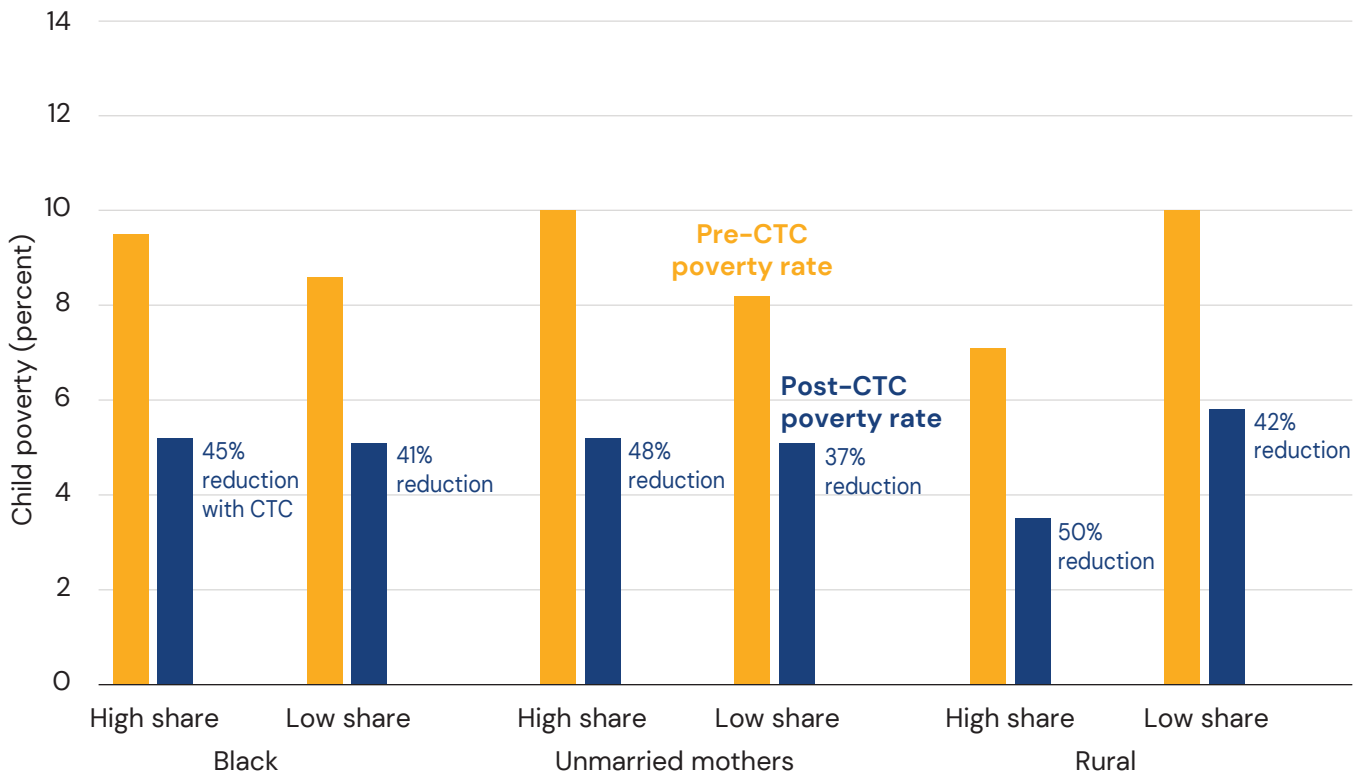
Columbia University's Center on Poverty and Social Policy has shown that, prior to the expansion, children were distinctively left behind by the pre-reform (and now post-sunset) CTC structure. Specifically, about one third of children were not eligible for the maximum tax credit because their families' incomes were too low (Collyer, Harris, and Wimer 2019). Certain groups of children were more likely to be left behind than others, specifically (1) Black children, (2) children in families with unmarried mothers, (3) children in rural areas, (4) families with young children, and (5) children in larger families. Related work demonstrates that the child poverty reduction in 2021 under the temporary expanded credit was driven by the full inclusion of these children who had previously been left behind, as well as by an increase in the benefit size (Wimer et al. 2022).

States vary a great deal demographically, so some states are likely to have a higher proportion of children who were left behind by the pre-reform credit structure and are left behind again with the expiration of the 2021 credit. We seek to further examine differences in the credit's effects across states by considering the

extent of child poverty reduction by whether a state had more or fewer children left behind by the pre-reform credit structure. These results for states that have a higher or lower share of Black children, families with unmarried parents, and rural households are shown in Figure 3.⁵ For each category of children who are left behind, we consider states above and below the national average. So, for example, we divided states into those with the highest proportion of Black children versus those with the lowest proportion of Black children.

The results confirm that child poverty reductions related to the CTC are larger in states with a higher proportion of children who were left behind. The most striking differences are in states with a higher proportion of unmarried mothers, rural households, and large families; in those states, child poverty reduction hovered around 50 percent, whereas in states with lower shares of these children the child poverty reduction was closer to 40 percent. States with a high proportion of Black children show greater child poverty reduction (at about 45 percent), but the differences are not as large across states. And there is not much difference between states with higher or lower shares of families with young children (appendix table 2). Overall,

FIGURE 3
Effect of CTC, by Family Characteristics



Source: Authors' calculations.

Note: Percent reductions reported on the figure show the change from the pre-CTC poverty rate to the post-CTC poverty rate.



the expanded credit's more-equitable structure does seem to reduce inequality in child poverty rates by a state's demographics. With the expiration of the expanded credit on December 31, 2021, we can expect these inequities to reemerge in 2022.

Conclusion

Overall, the CTC yielded widespread reductions in poverty across states. Our analyses show that the CTC reduced poverty across both high- and low-cost states in 2021, as well as in states with both a higher and a lower proportion of previously underserved demographic groups. Importantly, we find that high-poverty, low-cost states—all of which are disproportionately situated in regions with weaker state-level safety net policies—experienced the largest reductions in poverty. As more data become available, we will have a stronger evidence base on how and to what extent the CTC reduced poverty and inequality, how those impacts varied across states, and how those effects will recede following the sunset of the expanded CTC. Future studies can assess the degree to which the 2021 CTC affected not only the level of poverty but also its

depth; that is, how did the credit boost the resources of families that were experiencing deep poverty, and how did it move them closer to the point of living above the poverty threshold? Unfortunately, with the expiration of the 2021 CTC, many families, as well as the regions they reside in, will likely feel the whiplash from the policy retracting to its pre-2021 design.

There are well-established and durable differences in economic performance both between and within regions throughout the United States that have persisted for decades. Historical forces and events (Andrews et al. 2017), industrial development, demographic differences, migratory patterns, and policy choices related to economic assistance, education, and public goods provision are just a few of the large-scale factors driving these observed differences (Logan, Hardy, and Parman 2021). It is worth highlighting that the strongest child poverty reductions tend to occur in states with higher poverty rates and with weaker state-level social safety net and labor market policies—including lower Temporary Assistance for Needy Families (TANF)-to-poverty ratios and an absence of state-earned income tax credits and higher minimum wages.

The CTC operated as many federal policy interventions have in the past, counteracting against weaker state-level policy interventions. Given well-documented higher marginal propensities to consume among families with low and moderate levels of income, such federal policies provide local and state economic stimulus and, as a by-product, potentially usher in record-low levels of unemployment (Zandi and Yaros 2021).

For now, there is evidence that the policy has reduced child poverty at both the family and regional levels. Future iterations of CTC expansions will benefit from expanded efforts to promote outreach with the aim of improving take-up and participation in the CTC, hopefully to the benefit of economically vulnerable children, their families, and the states in which they reside.

Endnotes

1. By grouping, we aim to overcome some of the statistical constraints that currently prohibit state-level estimates. The data used to estimate the expanded CTC's effects (the CPS) require three years of data to produce reliable state-level poverty estimates. The Census may eventually release its 2021 SPM estimates in the larger American Community Survey (ACS), which would allow for detailed estimates in states and substate areas, such as metropolitan areas or counties.
2. The following income sources and liabilities are removed from the measure of SPM unit resources: (1) Social Security benefits, (2) Supplemental Security Income (SSI) benefits, (3) unemployment insurance (UI), (4) public assistance benefits, (5) Supplemental Nutrition Assistance Program benefits (SNAP, formerly food stamps), (6) Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) benefits, (7) free and reduced-price school lunch program benefits, (8) housing subsidies, (9) energy subsidies, and (10) federal and state tax liabilities and credits.
3. We use the CPS ASEC weights to ensure our results are representative.
4. We also examined if these results followed the same pattern if, instead of grouping states by pretax/transfer poverty rates, we grouped them as high- or low-poverty states based on poverty rates before including the CTC but after including all other transfers and tax credits. The findings were consistent in that the CTC had a larger effect on the poverty rates of low-cost states than it had on high-cost states.
5. Additional details, plus the same analysis for younger and larger families, are reported in appendix table 2.

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TABLE A-1

Child Poverty Rate, Cost of Living, and Child Tax Credit

	Pre-Tax/Transfer Poverty Rate	Pre-CTC Poverty Rate	Poverty Rate	% Reduction Associated with CTC
High cost, high pre-tax/transfer poverty	24.7%	12.0%	7.0%	41.3%
Low cost, high pre-tax/transfer poverty	23.3%	8.9%	4.4%	51.1%
High cost, low pre-tax/transfer poverty	17.1%	7.1%	4.3%	39.5%
Low cost, low pre-tax/transfer poverty	15.4%	4.6%	2.4%	47.3%
All	21.5%	9.2%	5.2%	43.8%

Source: Authors' calculations.



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TABLE A-2

Effects of CTC on the Poverty Rate Among States with Larger Share of Children in Groups at Higher Risk of Not Receiving Traditional CTC ("Left Behind")

	Pre-Tax/Transfer Poverty Rate	Pre-CTC Poverty Rate	Poverty Rate	% Reduction Associated with CTC
1. Black				
High Share	22.0%	9.5%	5.2%	45.2%
Low Share	20.6%	8.6%	5.1%	40.9%
2. Unmarried mothers				
High Share	23.4%	10.0%	5.2%	48.0%
Low Share	19.1%	8.2%	5.1%	37.4%
3. Rural				
High Share	20.4%	7.1%	3.5%	50.3%
Low Share	21.9%	10.0%	5.8%	42.1%
4. Families with young children				
High Share	21.3%	9.4%	5.2%	44.2%
Low Share	21.8%	9.1%	5.1%	43.4%
5. Larger families (3+ children)				
High Share	19.7%	7.1%	3.6%	49.2%
Low Share	22.4%	10.3%	6.0%	42.0%
All	21.5%	9.2%	5.2%	43.8%

Source: Authors' calculations.

Note: Table 3 shows the antipoverty effects of the 2021 CTC on child poverty rate across the states based on the share of the child population falling into groups that prior work has documented are disproportionately left behind by the federal CTC: (1) children who are Black, (2) have unmarried mothers, (3) live in rural areas, (4) are in families with young children, and (5) those in larger families. For example, the results in panel 1 show the antipoverty effects of the CTC in states where the share of the child population identified as Black was above the median ("high share") and below the median ("low share").



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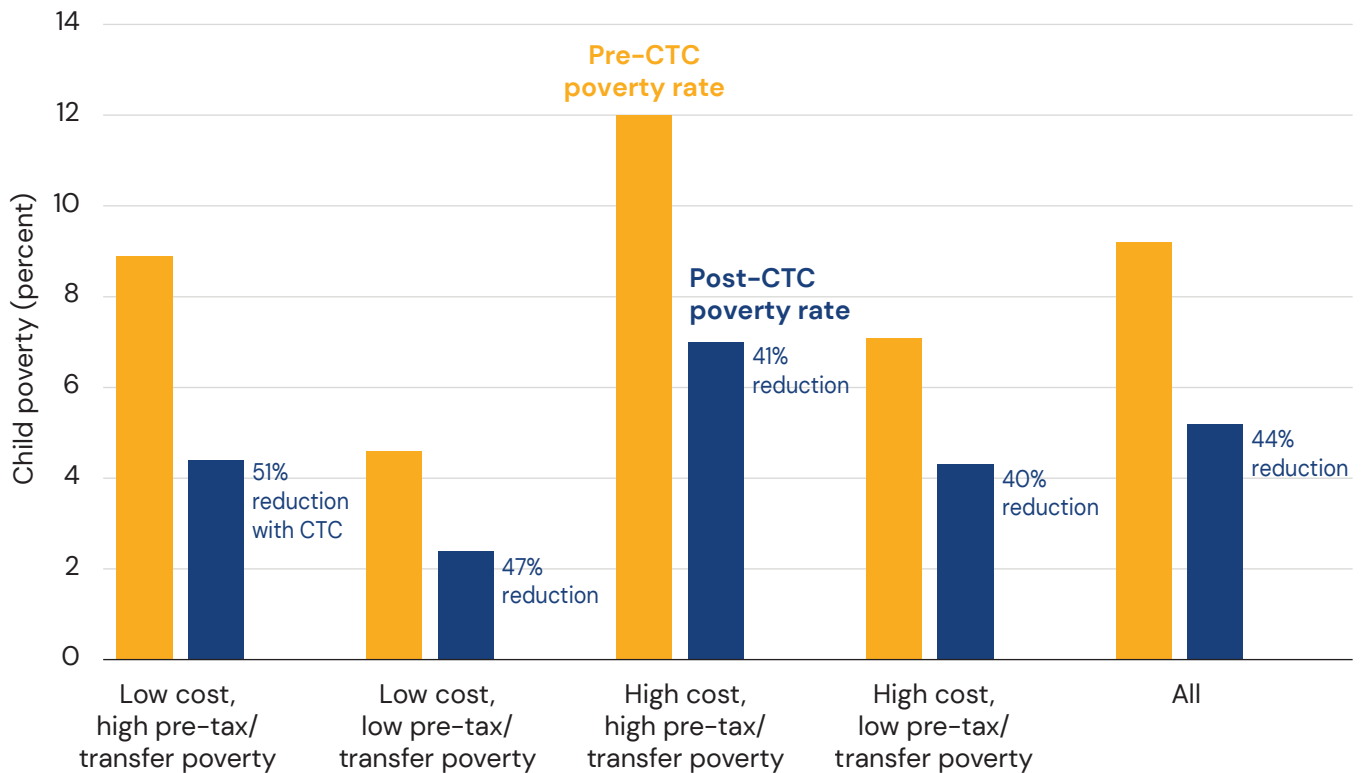
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Child poverty is a persistent national issue with lifetime and intergenerational consequences, but the distribution of its incidence and its impacts vary. One dimension that deserves attention is the variation in child poverty by state and the effectiveness of and potential for federal policy to confront the problem. In this essay, the authors investigate how the CTC affected child poverty in states by two characteristics: state-level cost of living (high-cost versus low-cost states) and state-level poverty (high versus low pre-tax/transfer poverty rates). They find that while the CTC caused substantial reductions in poverty in each kind of state, poverty reductions were the highest in low-cost, high poverty states, i.e., those states with relatively lower cost of living and with a higher poverty baseline.

Effect of CTC, by State Characteristics



Source: Authors' calculations.

Note: Percent reductions reported on the figure show the change from from the pre-CTC poverty rate to the post-CTC poverty rate.



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