DATA POINT

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CALIFORNIA POLICY LAB

How the Expanded Child Tax Credit Helped California Families

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The Child Tax Credit (CTC) is one of the largest programs tackling child poverty in the United States. Before tax year (TY) 2021, families with little to no income were not eligible to claim the credit, thereby limiting the CTC's ability to reduce poverty. Congress temporarily eliminated this minimum income requirement as part of the American Rescue Plan Act (ARPA), making the credit similar to a universal basic income. Even with this expansion, families still must submit a tax return to receive the CTC, potentially leaving behind children whose parents have no legal obligation to file taxes.

To better understand the impact of these changes on California families, the California Policy Lab, in collaboration with the California Department of Social Services (CDSS) and the Franchise Tax Board (FTB), estimated the number of California children enrolled in safety-net programs who became newly eligible for the CTC under the ARPA. We then compared the total CTC benefits distributed under the ARPA to those distributed under the previous eligibility rules set by the Tax Cuts and Jobs Act (TCJA) in order to gauge the reach of the ARPA expansion among California's poorest children. These findings provide new evidence on the effectiveness of distributing anti-poverty aid via the tax code. This Data Point provides key insights from an in-depth report, How the Expanded Child Tax Credit Helped California Families.

KEY FINDINGS

1. **Overall, we find that 76% of eligible California children (about 1.2 million) who were enrolled in safety-net programs likely received the 2021 ARPA CTC, totaling $3.8 billion in credits.** The expanded CTC reached some of California's most vulnerable communities, including those in California's poorest regions, and across racial and ethnic groups.

2. **We estimate that about 610,000 California children enrolled in safety-net programs became newly eligible for the CTC under the ARPA**. Put differently, one quarter of all children enrolled in CalFresh or CalWORKs became newly eligible for the CTC, resulting in $3.56 billion in new credits becoming available, over and above the credits they were eligible for under TY 2020 —and current— law. Because these gains were concentrated among households earning less than $2,500 annually (including those with no earnings), far fewer families are expected to qualify for the CTC in TY 2022 because the eligibility criteria have reverted back to the TCJA rules.

TABLE 1: Gains from ARPA compared to TCJA, number of children and total payments

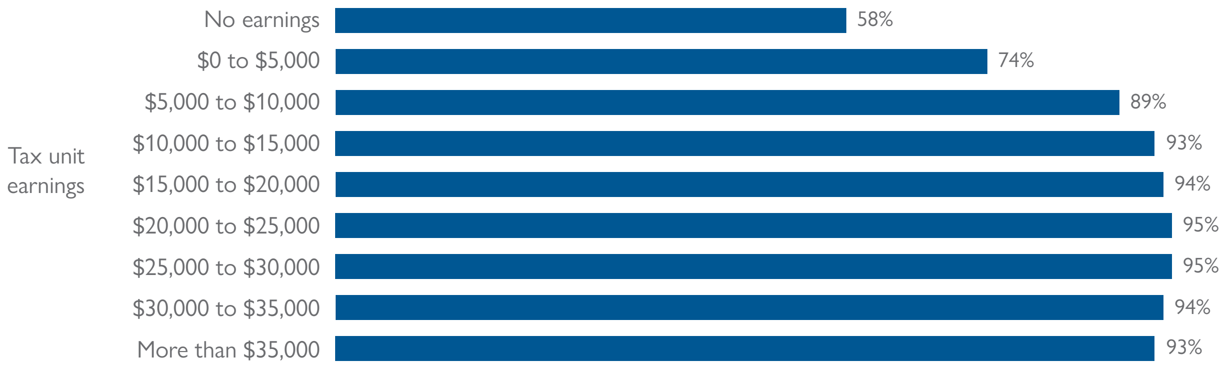
	ELIGIBLE CHILDREN			LIKELY RECIPIENT CHILDREN		
	UNDER ARPA	UNDER TCJA	GAIN	UNDER ARPA	UNDER TCJA	GAIN
NUMBER OF CHILDREN	1,518,482	908,081	610,401	1,224,358	843,248	381,110
CTC PAYMENTS (MILLIONS)	$4,774	$1,186	$3,588	$3,846	$1,109	$2,737

Source: California Department of Social Services data (2019–20) and Franchise Tax Board data (TY 2019)

3. **Almost a quarter of the potential gains from the ARPA expansion remain unrealized because not all eligible children were claimed on a TY 2020 tax return.** Of the 610,000 California children who became newly eligible for the CTC under the ARPA, we estimate that only 381,000 (62%) actually benefited from the expansion. In other words, more than 1 in 3 children who were eligible for the credit likely missed out on it. That leaves over $900 million in ARPA CTC payments undistributed, or $3,700 per eligible unclaimed child.

4. **Income is the single most important determinant of whether families actually benefited from the expanded ARPA CTC.** Families earning above $5,000 received 90-95% of the expanded credit dollars made available to them through the ARPA CTC, underscoring the power of the tax system to reach low-income households. By contrast, families with no wage earnings —who are less likely to file taxes because many are not legally obligated to do so— received just 58% of the dollars they were supposed to under the ARPA CTC, demonstrating the additional work needed to be done to ensure these families receive benefits delivered through the tax code.

FIGURE 1: Share of ARPA CTC likely received, by tax unit earnings



Source: California Department of Social Services data (2019–20) and Franchise Tax Board data (TY 2019)

CONCLUSION

To ensure equitable distribution of the CTC, future efforts should focus on increasing access for children residing in households with little to no income. We estimate that the low tax filing rate among families with annual earnings of less than $10,000 means that $790 million in ARPA CTC went unclaimed in California. That amount represents 85% of the estimated $928 million in total ARPA Child Tax Credits left unclaimed by California families enrolled in CalFresh or CalWORKs.

This research comes at a critical time. At the federal level, as well as across states, policymakers are expanding their use of tax credits to deliver economic stimulus and combat poverty. If we want to generate equitable policies both in design and implementation, we need to understand who misses out in a system built around tax filing — and how to update our delivery strategies to ensure they are not left behind.

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