NATIONAL HEALTH LINE

Boosting Health through the Tax Code: 2021 Tax Credit Reforms

Ethan J. Evans

The National Association of Social Workers (NASW) applauded Congress in March of this year when they successfully passed the $1.9 trillion COVID-19 American Rescue Plan to address public health and economic impacts of the pandemic. In their press release, national leadership pointed to tax credit provisions that are expected to drastically cut poverty and in turn "push against racial inequities" (NASW, 2021). The United States has a long history of using the tax code to advance social welfare; tax credit programs for earned income, child allowance, and child care expenses serve as economic security programs that have been associated with improved health outcomes (National Academies of Sciences, Engineering, and Medicine, 2019; Simon, McInerney, & Goodell, 2018). In this column, I briefly revisit the history of this practice in the United States and describe the most recent expansions in terms designed to help social workers spread the word and help people access these benefits during this unprecedented health crisis.

TURNING TO THE TAX CODE

The earned income tax credit (EITC) was written into the Internal Revenue Code in 1975 and made permanent in 1978, a time when welfare dependency, not poverty, was targeted for reform (O'Connor, 1998). The strategy was conceived of as an anti-poverty program that represented an alternative to welfare because it incentivized work. Instead of a direct cash transfer, the EITC is a refundable credit designed to supplement the wages of low-income workers. The value of the credit is higher for those who earn more. This is in direct contrast to tax- or cash-transfer strategies that pay the largest benefits to those without earnings.

Typically, tax credits reduce the amount of taxes that a person owes; they are *nonrefundable*, meaning they can only reduce the amount owed to $0. A "refundable" credit can take the amount owed below zero with a refund due to the taxpayer. For example, if a person who owes $600 in taxes applies a refundable $800 credit, that person will be refunded $200. Originally, the EITC provided a credit equal to 10 percent of the first $4,000 of a person's earnings, with a phaseout between incomes of $4,000 and $8,000 (Crandall-Hollick, 2018b).

This basic structure has remained intact even as subsequent legislative changes have altered the amount of the credit and the eligibility rules. Today, workers ages 24 to 64 may be eligible for the credit. The amount depends on a recipient's income, phasing in as a percentage of earned income until the credit amount reaches its maximum level. Once this level is reached, a recipient receives this maximum credit amount up through a phaseout threshold. The credit then gradually decreases to zero at a fixed rate per dollar of income. The specific values of the EITC credit and its threshold values vary depending on several factors, including the number of qualifying children a taxpayer has and the taxpayer's marital status (Crandall-Hollick, Falk, & Boyle, 2021). In 2020, the maximum credit for an individual with an income below $15,820 was $538, and the maximum credit for an individual with three or more children and an income below $50,954 was $6,600.

The EITC has become the largest means-tested anti-poverty program that provides cash benefits. For 2018, 26.5 million taxpayers received a total of $64.9 billion from EITC (Crandall-Hollick, Falk, & Boyle, 2021). This is far more than the $16.5 billion spent annually by the federal government to fund Temporary Assistance for Needy Families (Falk & Landers, 2021). It has proven effective in encouraging large numbers of single parents to join the labor force (Holtz & Scholz, 2003), and in 2018 it lifted 5.6 million people out of poverty (Center on Budget Policy and Priorities, 2019).

While this approach can be effective, accessing tax credits can be complicated. Too often individ-

doi: 10.1093/hsw/hlab031

uals and families are left on their own to navigate a bewildering set of eligibility rules and benefits (Sawhill & Welch, 2021). Moreover, the approach of using the tax code to incentivize work and deliver cash aid obscures the degree of state intervention in the economy and provision to economically disadvantaged populations. Active involvement of the state in promoting the general welfare is thus "hidden" (Howard, 1997), or "submerged" (Mettler, 2011). A danger of this approach is that the general public and even beneficiaries of such policies remain unaware of their benefit, and at worst passive to their protection (Mettler, 2011). Despite some critique, the United States has repeatedly turned to the tax code, using refundable and nonrefundable tax credits for a variety of social welfare purposes, from reducing the tax burdens of families with children (the child tax credit [CTC]), to paying for childcare (the child and dependent care tax credit [CDCTC]), to helping families afford higher education (the American opportunity tax credit), to subsidizing health insurance premiums (the premium assistance tax credit; Crandall-Hollick, 2018b).

Tax Credits in the American Rescue Plan

The American Rescue Plan Act of 2021 (ARP; H.R. 1319) outlined a $1.9 trillion package to combat the COVID-19 pandemic, providing support to address its public health and economic impacts. It not only included $402.2 billion for direct stimulus checks, but also reformed the tax code for tax year 2021, supporting $34.3 billion in expanded tax credits to families. Most notably, it expanded eligibility for and increased the value of the EITC, child and dependent care credit, and child tax credit for 2021.

EITC. The primary changes included in the ARP to the EITC involve expanding credit eligibility and credit amount for childless workers. Previously, only childless workers ages 24 to 64 were eligible. For the 2021 tax year only, childless workers who are at least 19 years old with income less than $27,380 can claim the credit (U.S. Department of the Treasury, 2021). One exception is that full-time students under age 24 do not qualify. The refundable credit amount in 2021 will be three times the existing credit: $1,502, up from $538 in 2020.

CDCTC. The CDCTC is a nonrefundable tax credit that reduces a taxpayer's federal income tax liability based on child and dependent care expenses paid (Crandall-Hollick & Boyle, 2021). Originally created with the Tax Reform Act of 1976 (P.L. 94-455), the amount of the CDCTC provides the maximum benefit to the lowest income group of families (Forry & Anderson, 2006). To claim the credit a taxpayer must have income and qualifying expenses. The amount is calculated as a percentage of qualifying expenses up to $3,000 for one child and $6,000 for two or more children; the credit rate of those expenses varies from 20 percent to 35 percent based on the taxpayer's earned income. The APR increases the amount of the credit and eligible expenses for child and dependent care, modifies the phaseout of the credit for higher earners, and makes it refundable for tax year 2021 only (U.S. Department of the Treasury, 2021). In short, the maximum credit in 2021 will be 50 percent for one dependent's qualifying expenses of up to $4,000, or $8,000 for two or more dependents. Also, for the first time this credit will be refundable, as is the EITC. This means that those who owe no federal income tax can receive a payment against expenses.

CTC. A product of the Taxpayer Relief Act of 1997 (P.L. 105-34), the CTC has been subject to multiple legislative changes, "transforming it from a generally nonrefundable credit available only to the middle and upper-middle class, to a partially refundable credit that more low-income families are eligible to claim" (Crandall-Hollick, 2018a, p. 1). The structure is complex, containing features similar to the EITC: an earned income requirement, a maximum credit amount, phaseout parameters, etc. In general, the child tax credit allows eligible taxpayers to reduce their federal income tax liability by up to $2,000 per qualifying child; a portion of the credit is refundable for some taxpayers (Crandall-Hollick, 2020). Under the ARP, the CTC increases to $3,600 per child five years old or under and $3,000 per child ages six through 17, is fully refundable, and makes it possible for families to receive up to half of it in advance during the last half of 2021 (U.S. Department of the Treasury, 2021). This final element, the advance payment, has received a lot of media attention (Hsu, 2021; Singletary, 2021; WSJ Noted, 2021). It is the one element of the tax credit changes included in the ARP that can be obtained prior to filing 2021 taxes. The IRS began paying advance monthly payments to qualifying people who filed 2019 or 2020 tax returns as of July 15. These payments will equal up to half of the total credit. The other half will be paid as a refund when 2021 income tax returns are filed.

SOCIAL WORKER RESOURCE NOTES

As social workers, we have long contributed to connecting people with their tax credits and refunds,

and the IRS is urging community groups and others with connections to people with children to share information about these filing opportunities (U.S. Department of the Treasury, 2021). It is important that we get the word out that it is not too late for people who did not file 2019 or 2020 taxes to register for the advanced child tax credit payments; the IRS has set up a web-based "non-filer sign-up tool" at https://www.irs.gov/credits-deductions/child-tax-credit-non-filer-sign-up-tool. The following information must be provided to register: full name, current mailing address, email address, date of birth, valid social security numbers (or other taxpayer IDs) for applicant and their dependents, bank account number, and routing number. Also, because many of these reforms are only available for the 2021 tax year, it is especially important that we reach as many people as possible before the April 15, 2022, tax deadline. Specifically, we can help connect people to the IRS's Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly programs. These offer free tax help to people who need assistance in preparing their own tax returns. Local VITA locations can be searched for at https://irs.treasury.gov/freetaxprep/. HSW

REFERENCES

American Rescue Plan Act of 2021, H.R.1319, 117th Cong. (2021–2022) https://www.congress.gov/bill/117th-congress/house-bill/1319/text

Center on Budget Policy and Priorities. (2019). *Policy basics: The earned income tax credit*. https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit

Crandall-Hollick, M. L. (2018a). *The child tax credit: Legislative history* (CRS Report No. R45124). Congressional Research Service. https://fas.org/sgp/crs/misc/R45124.pdf

Crandall-Hollick, M. L. (2018b). *The earned income tax credit (EITC): A brief legislative history* (CRS Report No. R44825). Congressional Research Service.https://fas.org/sgp/crs/misc/R44825.pdf

Crandall-Hollick, M. L. (2020). *The child tax credit: How it works and who receives it* (CRS Report No. R41873). Congressional Research Service. https://fas.org/sgp/crs/misc/R41873.pdf

Crandall-Hollick, M. L., & Boyle, C. F. (2021). *Child and dependent care tax benefits: How they work and who receives them* (CRS Report No. R44993). Congressional Research Service. https://fas.org/sgp/crs/misc/R44993.pdf

Crandall-Hollick, M. L., Falk, G., & Boyle, C. F. (2021). *The earned income tax credit (EITC): How it works and who receives it* (CRS Report No. R43805). Congressional Research Service. https://fas.org/sgp/crs/misc/R43805.pdf

Falk, G., & Landers, P. A. (2021). *The Temporary Assistance for Needy Families (TANF) block grant: Responses to frequently asked questions* (CRS Report No. RL32760). Congressional Research Service. https://fas.org/sgp/crs/misc/RL32760.pdf

Forry, N. D. & Anderson, E. A. (2006). The Child and Dependent Care Tax Credit. *Marriage & Family Review, 39*, 159–176, https://doi.org/10.1300/J002v39n01_09

Holtz, V. J., Scholz, J. K. (2003). The earned income tax credit. In R. A. Moffit (Ed.), *Means-tested transfer programs in the United States* (pp. 141–197). National Bureau of Economic Research, University of Chicago Press.

Howard, C. (1997). *The hidden welfare state: Tax expenditures and social policy in the United States*. Princeton University Press.

Hsu, A. (2021, July 15). The expanded child tax credit is here. Here's what you need to know. *NPR*. https://www.npr.org/2021/07/15/1016122095/the-expanded-child-tax-credit-is-here-heres-what-you-need-to-know

Mettler, S. (2011). *The submerged state: How invisible government policies undermine American democracy*. University of Chicago Press.

National Academies of Sciences, Engineering, and Medicine. (2019). *A roadmap to reducing child poverty*. National Academies Press. https://www.nap.edu/read/25246

National Association of Social Workers. (2021). *NASW applauds Congress for passing President Biden's COVID-19 American Rescue Plan*. https://www.socialworkers.org/News/News-Releases/ID/2289/NASW-applauds-Congress-for-passing-President-Bidens-COVID-19-American-Rescue-Plan

O'Connor, A. (1998). The false dawn of poor-law reform: Nixon, Carter and the quest for a guaranteed income. *Journal of Policy History, 10*, 99–129.

Sawhill, I. V., & Welch, M. (2021, May 27). *The American families plan: Too many tax credits for children?* https://www.brookings.edu/blog/up-front/2021/05/27/the-american-families-plan-too-many-tax-credits-for-children/

Simon, D., McInerney, M., & Goodell, S. (2018). The earned income tax credit, poverty, and health [Policy brief]. *Health Affairs*. https://doi.org/10.1377/hpb20180817.769687

Singletary, M. (2021, July 13). Monthly child tax credit payments start hitting bank accounts this week. Here's what you need to know if you're eligible. *Washington Post*. https://www.washingtonpost.com/business/2021/07/13/child-tax-credit-payments-irs/

Tax Reform Act of 1976, P.L. 94-455, 90 Stat. 1520. (1976).

Taxpayer Relief Act of 1997, P.L. 105-34, 111 Stat. 788. (1997).

U.S. Department of the Treasury. (2021, May 11). *Taxpayers with children should file returns soon for advance payments of Child Tax Credit* [Press release]. https://www.irs.gov/newsroom/irs-offers-overview-of-tax-provisions-in-american-rescue-plan-retroactive-tax-benefits-help-many-people-now-preparing-2020-returns

WSJ Noted. (2021, July 15). Here's what you need to know about child tax credit payments: The payments can bring unexpected tax bills for some families. *Wall Street Journal*. https://www.wsj.com/articles/heres-what-you-need-to-know-about-child-tax-credit-payments-11626380746

Ethan J. Evans, PhD, MSW, *is assistant professor, Division of Social Work, California State University, Sacramento, 6000 J Street, Mariposa Hall 4010, Sacramento, CA 95819-6090; email: ejevans@ucdavis.edu.*

Advance Access Publication October 8, 2021