

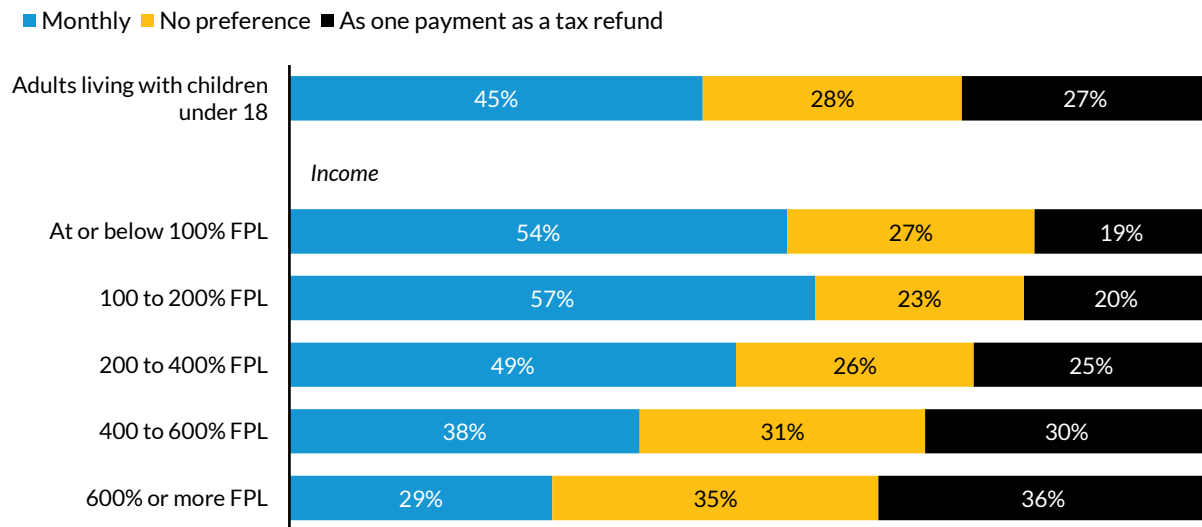
Many Adults with Lower Income Prefer Monthly Child Tax Credit Payments

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Most families typically receive the child tax credit (CTC) as part of an annual tax refund after filing their tax return. The American Rescue Plan Act changed that temporarily. From July to December 2021, the Internal Revenue Service automatically delivered up to half the anticipated annual credit to the vast majority of families with children in monthly payments. The small share of families with children that did not receive the payments automatically could apply to receive them via an online portal. By December, the Treasury Department reported delivering payments to the families of 61 million children (see <https://bit.ly/3O3gjch>). Families who received the automatic payments could opt out of advanced payments starting in August, though available evidence suggests few families did so (see <https://bit.ly/3zHgHsF>).

According to new data from the Urban Institute’s December 2021 Well-Being and Basic Needs Survey (WBNS; <https://urbn.is/2ClcZqK>), 45 percent of nonelderly adults living with children who received the advanced CTC payments reported they preferred receiving the credit as a monthly payment, 28 percent reported no preference in payment timing, and 27 percent preferred a single payment as part of a tax refund (figure 1). Respondents were generally more likely to prefer a monthly payment the lower their family income was, which is likely a reflection of greater instability in other income streams. About 54 percent of adults living with children under age 18 with family income at or below the federal poverty level (about \$22,000 for a family of three in 2021) preferred a monthly payment, as did 57 percent of adults living with children with income between 100 and 200 percent of the federal poverty level. Just 29 percent of adults in the highest income group—those with incomes at least six times the poverty level—preferred monthly payments. An additional 35 percent in that group had no preference.

FIGURE 1
Preference for Monthly or Annual Child Tax Credit Payments
Adults with children under 18 living at home that received the advanced child tax credit payments, by family income



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Source: Well-Being and Basic Needs Survey, December 2021.

Note: Adults are ages 18 to 64. FPL = Federal Poverty Level.

Discussion

Previous evidence suggests families used the monthly CTC payments to pay for basic, ongoing needs, such as food, clothing, rent, utilities, and other bills (see <https://urbn.is/3tJpUge>). Even before the COVID-19 pandemic, some evidence suggests that tax refunds—which typically include the CTC for low-income families—were used to purchase basic needs, pay down debt, and pay for items such as health care that families had delayed throughout the year (see <https://bit.ly/3u68GtN>). Together, these findings suggest that a payment delivered more frequently than annually might be beneficial. Limited demonstrations of advancing the earned income tax credit (EITC), a tax credit that primarily goes to low- and middle-income families with children, have shown that demonstration participants typically wanted to continue receiving the EITC in periodic advanced payments (see <https://bit.ly/39EUWIl>).

However, when advanced payment of the EITC was offered to most families that expected to be eligible for the EITC between 1978 and 2010, few families participated. An audit of the program showed that from 2002 to 2004, only 3 percent of potentially eligible individuals opted to receive the EITC in advance of filing a tax return (see <https://bit.ly/3QsNO9q>). Several factors accounted for this low participation including limited awareness, a cumbersome application process, and families fearing they would need to repay errantly advanced credits (see <https://brook.gs/3HAKswV>). Other eligible people opted not to participate because they valued getting a relatively large tax refund, which can provide an opportunity to make a large purchase, such as a refrigerator or used car (<https://urbn.is/3mXPAIt>).

The advanced CTC in 2021 differed from previous advanced payments of the EITC because it was delivered automatically to most eligible families, and strong protections were in place so low-income families were not at risk of needing to repay errantly delivered credits (see <https://bit.ly/3n3Yei9>). By advancing only half of the credit and increasing the annual amount of the credit, Congress also ensured that most low-income families could expect to receive tax refunds similar to those received the previous year.

Monthly payment was the most popular CTC payment option for all but the highest income group (adults with incomes over 600 percent of poverty), and over half of adults in families with incomes below twice the federal poverty level preferred this option. How successful monthly payments are in the future will likely depend on how easy enrollment is and whether low-income families will be protected from repaying errantly paid credits. If monthly CTC payments do become available again, having the option to receive the credit as a single payment during tax-filing season would match the preference of 27 percent of adults with children that received the monthly CTC in 2021.

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