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COMPARING PLANS TO REDUCE CHILD POVERTY: THE FAMILY SECURITY ACT 2.0 FRAMEWORK AND THE EXPANDED CHILD TAX CREDIT

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The 2021 American Rescue Plan temporarily increased the child tax credit (CTC) to provide a more robust benefit to families with children. Since the expansion expired, lawmakers have floated proposals to provide benefits to parents. While some, including President Biden, have supported an extension of the expanded CTC, others have offered new plans. In this brief, we consider one alternative proposal, known as the Family Security Act 2.0 (FSA 2.0), put forth by a trio of senators. We examine the antipoverty effect of this proposal, and we compare it with a full year of the expanded CTC. We also assess the trade-offs associated with FSA 2.0, which would change several parts of the tax code in addition to introducing a new child benefit. We find that FSA 2.0 would reduce child poverty by almost 12 percent while the expanded CTC would reduce poverty by just over 41 percent—though at greater fiscal cost. In particular, we find that the poverty rate for Hispanic children would fall by just 7 percent under FSA 2.0 compared with 38 percent under the expanded CTC. These differences are largely the result of new Social Security number requirements and offsets in FSA 2.0 which include restructuring the earned income tax credit (EITC). We also find that the net effect of the policies in FSA 2.0 would make a small number of families worse off. While 80 percent of white children would be in families that see an increase in resources under FSA 2.0, that is true for only about two-thirds of Black, Hispanic, and Asian and Pacific Islander (AAPI) children. Over one quarter of Hispanic and AAPI children would live in families that would see a decrease in resources under FSA 2.0 compared to about 19 percent of children overall.

Temporary safety next expansions in response to the COVID-19 pandemic brought child poverty far below prepandemic levels amid an economic crisis. Measuring poverty using the Supplemental Poverty Measure (SPM), the Census Bureau estimated that in 2021, 5.2 percent of children lived in poverty, compared with 12.5 percent in 2019 (Creamer et al. 2022; Fox 2020).

Increases in the CTC, alongside stimulus checks also provided through the tax code, contributed the largest spending increases for children.[1]

Despite growing bipartisan agreement on the detrimental effects of child poverty and the importance of investing in children, there remains disagreement on appropriate long-term policy design (Strain et al. 2022). A proposed extension of the expanded CTC as part of the Build Back Better Act passed the House of Representatives, but the legislation was never taken up in the Senate.[2]

Senators Romney (R-Utah), Burr (R-North Carolina), and Daines (R-Montana) have released the framework for an alternative child benefit package, FSA 2.0. The benefit, which would be administered through the Social Security Administration, would replace the current CTC and other tax benefits associated with the costs of raising children. The new benefit would be partially paid for by the elimination or restructuring of some existing tax benefits.

In this brief, we examine how much poverty could be reduced by a child benefit and associated changes to the federal tax code similar to FSA 2.0. We compare poverty rates under 2018 law with those we model would have prevailed in 2018 if the new child benefit had been enacted, as well as the poverty rates we estimate would prevail in 2018 under a full year of the expanded CTC. Because the last three years have been unusual years for the economy, with large changes in employment rates and substantial increases in public assistance, we consider the impact of the child benefit plan expansion in a more typical year, 2018 (Giannarelli, Wheaton, and Shantz 2021).

This brief analyzes key provisions of FSA 2.0 and compares them with the CTC expansion enacted as part of the American Rescue Plan Act of 2021 (ARPA).[3] We compare these two policies because of their similar focus on reducing child poverty and because FSA 2.0 has been promoted as an alternative to the expanded CTC.[4] We find that, if it were in place in 2018, FSA 2.0 would reduce child poverty from 14.0 percent to 12.4 percent, as measured by the SPM. This is less than an extension of the expanded CTC, which would reduce child poverty to 8.2 percent. FSA 2.0 would have almost no effect on the number of children in deep poverty and a smaller effect on the number of Hispanic children in poverty relative to non-Hispanic children. Considering just the expansion of the child benefit under FSA 2.0 and not the stricter SSN requirements and other changes to the tax system, child poverty would be reduced to 11.2 percent.

TAX BENEFITS FOR CHILDREN: PAST, PRESENT, AND FUTURE

The CTC and earned income tax credit (EITC) provide substantial benefits for families with children. Together, they lift more children out of poverty than any other economic support program (Fox, Glassman, and Pacas 2020).

CTC

The CTC provides a benefit of up to $2,000 for each qualifying child under age 17 in a family (figure 1). It has evolved from a credit extending limited benefits to middle-income families to a credit providing benefits to almost all families with children. Modified five times since enactment in 1997, the rules of the CTC from 2018 through 2025 were established in the Tax Cuts and Jobs Act of 2017 (TCJA; Congressional Research Service 2021a). Those rules were altered for one year in 2021 to create an expanded CTC. In 2022, the CTC reverted to the TCJA rules, and families can again claim a credit of up to $2,000 per child under age 17 (figure 1), which is

[1] "Six Charts about Federal Spending on Children during the Pandemic," Urban Institute, December 15, 2021, https://www.urban.org/features/six-charts-about-federal-spending-children-during-pandemic.

[2] "Build Back Better Act," *Ballotpedia*, accessed November 28, 2022, https://ballotpedia.org/Build_Back_Better_Act.

[3] Not all details of FSA 2.0 have been fully specified and in some cases, our modeling is unable to account for policy specifics. We describe our modeling in more detail in the methodology section of this paper.

[4] See Robert Orr and Joshua McCabe, "Analysis of the Family Security Act 2.0," Niskanen Center, June 15, 2022, https://www.niskanencenter.org/analysis-of-the-family-security-act-2-0/.

partially refundable and can offset federal income taxes owed. If a family qualifies for a credit that exceeds taxes owed, they can receive up to $1,500 of the remainder of the credit as a tax refund.[5]

To qualify for the refundable portion of the credit, families must earn at least $2,500. The amount of credit that can be received as a refund is 15 cents per dollar earned in excess of $2,500 up to the maximum of $1,500 per child. The credit begins to phase out at a rate of 5 percent once income reaches $200,000 for single parents, or $400,000 for married couples. To qualify for the CTC, a child must have a Social Security number (SSN).

Dependents who do not qualify for the CTC can receive the other dependent tax credit (ODTC). The ODTC is a credit worth up to $500 per dependent that can only be used to offset taxes owed. These dependents include 17- or 18-year-old children, students aged 19 to 24, children under 17 without an SSN, or other adults claimed as dependents. The ODTC phases out with the CTC.

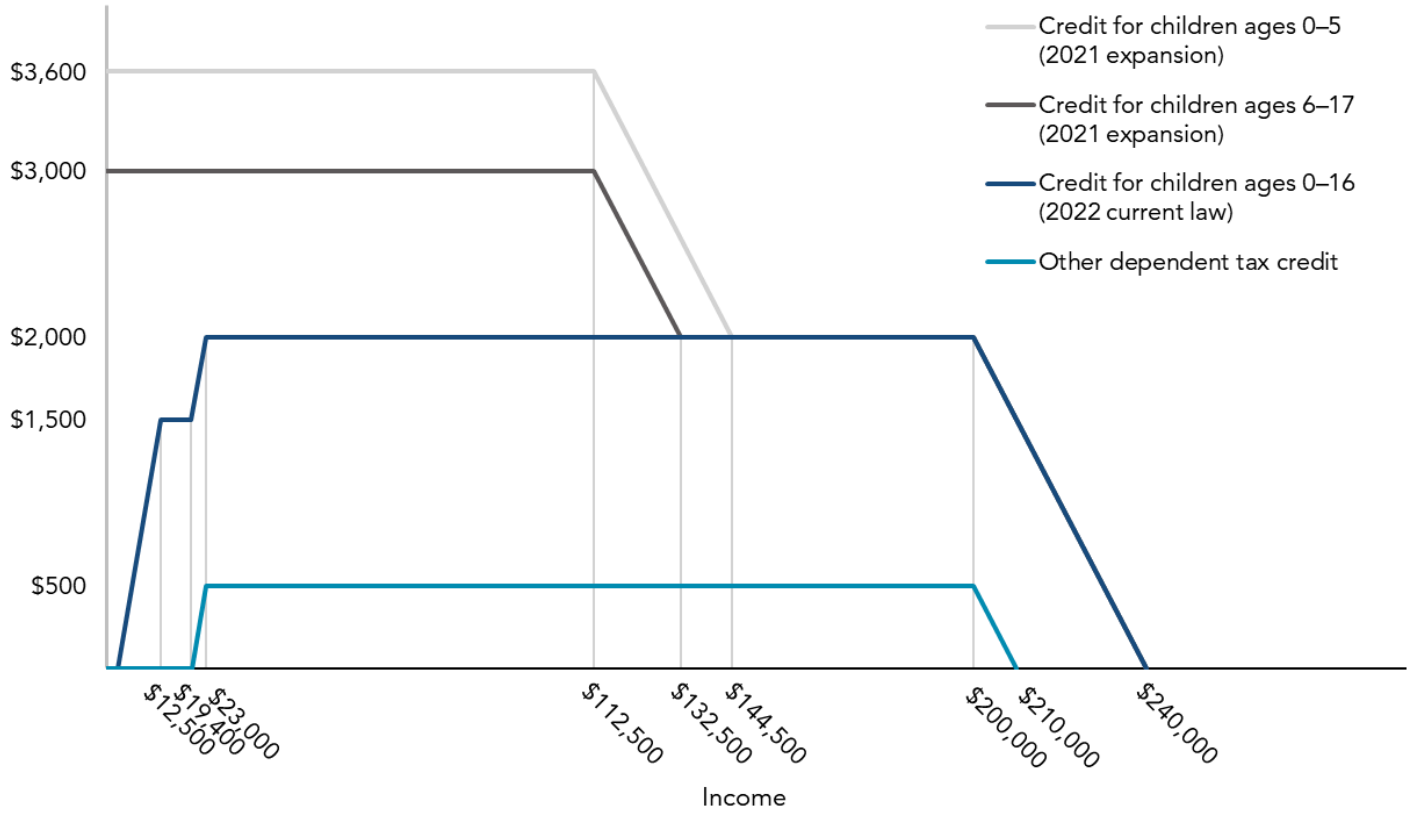
In 2021, ARPA expanded the CTC in three significant ways. First, the maximum credit increased to $3,000 for children ages 6 to 17 and to $3,600 for children under age 6. Second, children who were 17 became eligible for the CTC, a much larger benefit than the ODTC they previously qualified for. Finally, the credit was made fully refundable, meaning that even families with no earnings or tax liability could receive the maximum credit. (See Acs and Werner 2021 for a more complete discussion.)

[5] The TCJA set the amount of credit that could go beyond offsetting taxes owed at $1,400 in 2018, which is indexed annually for inflation. The first increase in this amount was in 2022 when the amount of credit that could go beyond offsetting taxes owed increased to $1,500. This amount cannot go higher than the base amount of the credit of $2,000. As of this writing, some legislators continue to advocate for changes to the CTC in 2022 and beyond.

FIGURE 1

Child Tax Credit, Single Parent

One child, 2021 and 2022



Source: Urban-Brookings Tax Policy Center calculations based on Internal Revenue Procedure 2021–45, Internal Revenue Service (https://www.irs.gov/pub/irs-drop/rp-21-45.pdf); American Rescue Plan Act, H.R. 1319,117th Congress (2021).
Notes: CTC = child tax credit. This figure assumes all income comes from earnings, and the child meets all tests to be a child tax credit qualifying dependent. In 2021, credits of $3,000 and $3,600 were fully refundable; 2022 law limits refunds to $1,500 out of the maximum $2,000 credit. Under the 2021 expansion, the additional $1,000 or $1,600 of the credit for married parents began to phase out once income reached $150,000 and continued until credit reached the 2022 level and began second phase-out at $400,000 of income. Only children with a Social Security number qualify for the $3,000 and $3,600 credits for children under 18. Children without a Social Security number under age 18 who meet the dependency tests of eligibility can qualify for other dependent credits.

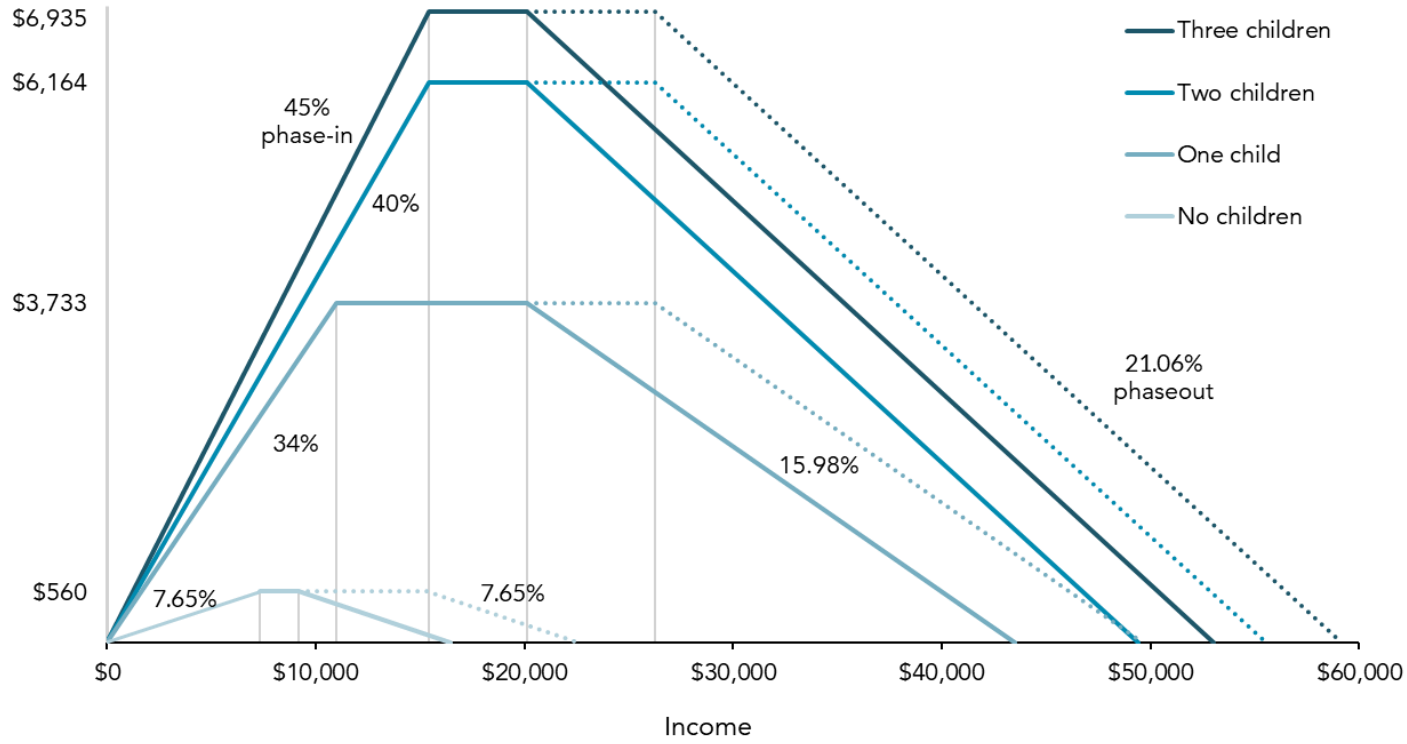
EITC

The EITC is the second-largest tax credit for families with children after the CTC (Hahn et al. 2021). Families need to have earnings to benefit from this credit: the credit is equal to a percentage of earnings up to a maximum credit, which varies by the number of qualifying children in a household. Families receive the maximum credit until income reaches the point at which the credit begins to phase out. The credit then declines with each dollar of income until no credit is available. The threshold at which the phase-out begins is higher for married couples filing jointly than it is for single filers (figure 2).

FIGURE 2

Earned Income Tax Credit

By number of children and filing status, 2022



Source: Urban-Brookings Tax Policy Center calculations based on Internal Revenue Procedure 2021-45, Internal Revenue Service (https://www.irs.gov/pub/irs-drop/rp-21-45.pdf).
Notes: EITC = earned income tax credit; This figure assumes all income comes from earnings. Dotted lines represent higher phase-out thresholds for married couples filing jointly.

THE BUILD BACK BETTER ACT'S PROPOSED EXTENSION OF THE EXPANDED CTC

President Biden originally proposed extending the 2021 expansion of the CTC through 2025, while making the full refundability of the credit permanent.[6] The version of the Build Back Better Act (BBB) that passed in the House of Representatives on November 19, 2021, scaled back this proposal. BBB, among other things, sought to extend the 2021 version of the CTC for one additional year and extend full refundability of the credit indefinitely (Congressional Research Service 2021b). The legislation was never brought to the Senate floor.[7]

FSA 2.0

After the Senate declined to take up the extension of the 2021 expansion to the CTC, Senators Romney (UT), Burr (NC), and Daines (MT) introduced FSA 2.0, an update from a previous proposal supported by Senator Romney. The proposal contains five major elements, including a child benefit and four offsets to help pay for that benefit:[8]

[6] "Where President Biden Stands on Tax Policy," Tax Policy Center, last updated April 22, 2022, https://www.taxpolicycenter.org/feature/where-president-biden-stands-tax-policy

[7] Joseph Zeballos-Roig, "Monthly Checks to Parents Aren't Coming Back Any Time Soon with Democrats and Republicans Miles Apart on Striking a Deal." *Business Insider*, January 18, 2022, https://www.businessinsider.com/democrats-republicans-biden-child-tax-credit-deal-heres-why-2022-1.

[8] We model the policy as described in the framework released June 15, 2022, supplemented with clarifying information provided by Senator Romney's staff. Our sources of information are described in greater detail in the methodology section. See Senators Romney, Burr, and Daines, "The Family Security Act 2.0: A New National Commitment to Working American Families" accessed November, 28, 2022, https://www.romney.senate.gov/wp-content/uploads/2022/06/updated_family-security-act-2.0_one-pager_appendix.pdf.

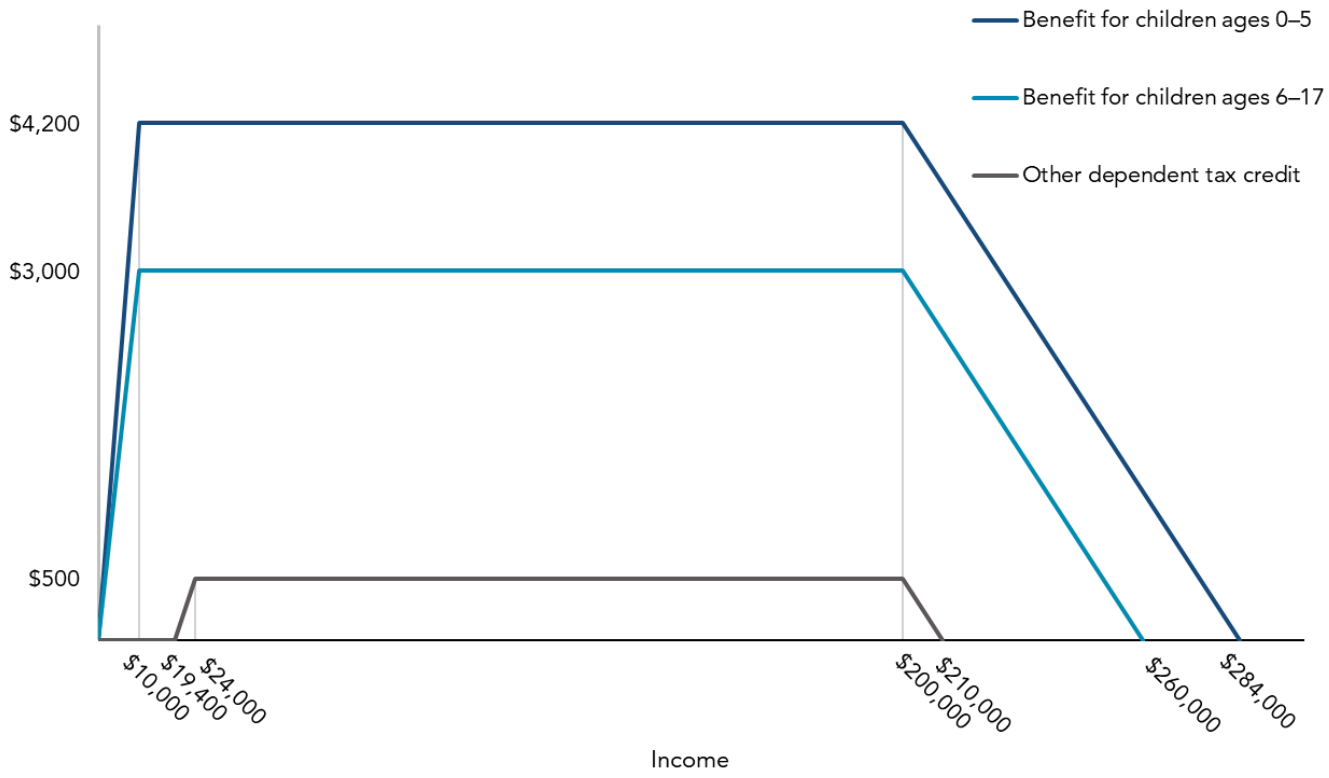
1. Replacing the CTC with a Child Allowance Benefit Administered through the Social Security Administration

FSA 2.0 would provide a benefit of $4,200 for children ages 5 and younger and $3,000 for children ages 6 to 17 for a maximum of six children (figure 3). As with the expanded CTC, children age 17 would qualify for a much larger benefit than the $500 ODTC for which they currently qualify. Families would need to earn at least $10,000 to receive the maximum benefit for which they qualify. Families earning less than $10,000 would receive benefits in proportion to their earnings. A family earning $5,000 would receive half of the maximum benefit for which they qualify, and a family earning $9,000 would receive 90 percent.

FIGURE 3

Proposed Child Allowance, FSA 2.0

One child, 2022



Source: Urban-Brookings Tax Policy Center calculations.
Notes: FSA 2.0 = Family Security Act 2.0. This figure assumes all income comes from earnings, and the child meets all tests to be a child allowance-qualifying dependent. Only children under age 18 with Social Security numbers (and at least one parent with one) qualify for the $3,000 and $4,200 child allowance. Children who do not qualify for the child allowance but who were otherwise eligible for the child tax credit can qualify for the other dependent credit.

For example, a family with one child under age 6 with earnings of $5,000 would receive $2,100, instead of their potential maximum of $4,200. The maximum benefit would begin to phase out at the same thresholds as the CTC under 2022 law ($200,000 for single parent families and $400,000 for married couples). Families could opt to receive the benefit in one annual payment or in monthly increments. Payments begin at a child's birth and extend until a child turns age 18. At least one parent and all claimed children must have SSNs to qualify for this benefit. This is stricter than existing CTC rules which only require children to have SSNs. The $500 tax credit for other dependents would remain in place for dependents that do not qualify for the child allowance. The proposal would also provide $700 monthly payments during the last four months of a pregnancy to families that are eligible based on income.

2. Restructuring the EITC

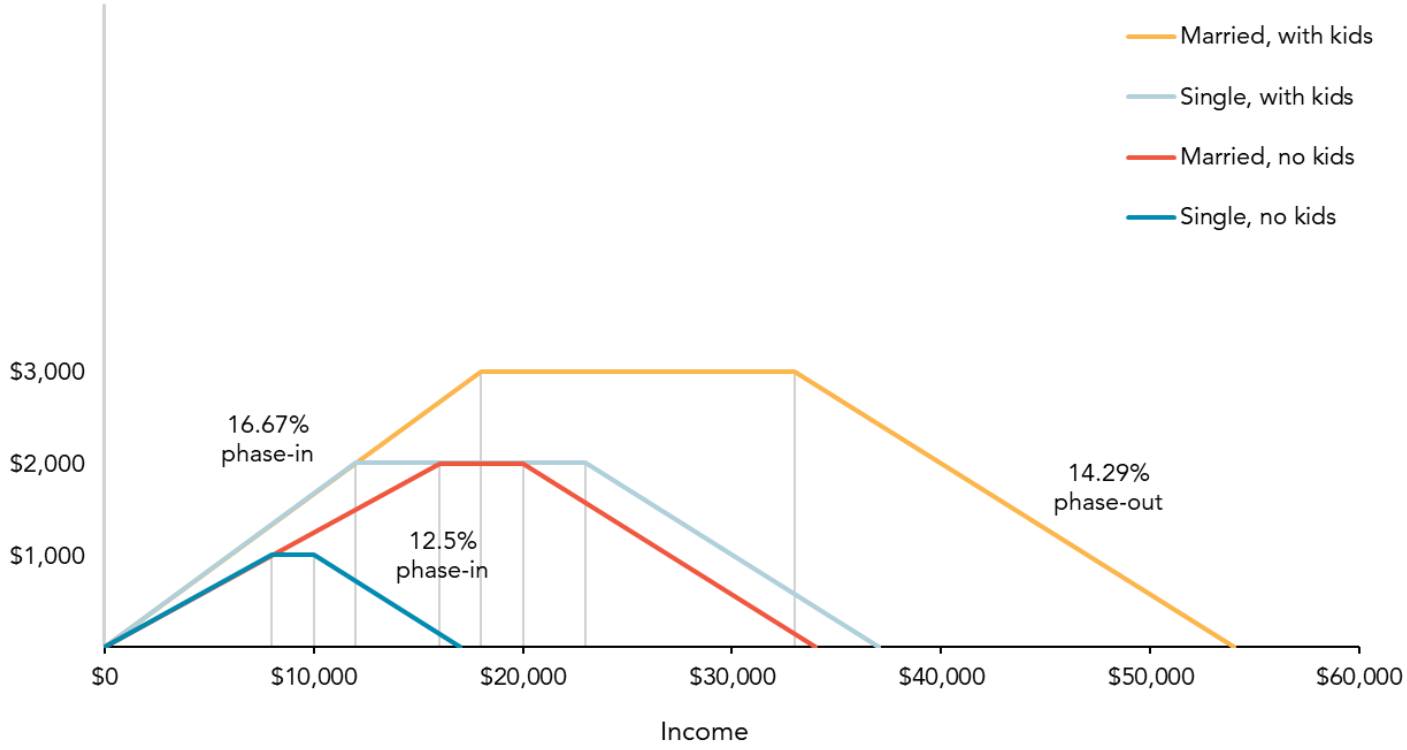
In keeping with 2022 law, FSA 2.0 bases EITC benefits on marital status and children and phases in benefits as earnings increase (figure 4). Under FSA 2.0, EITC benefit amounts would not increase if households have more than one child. Instead, single filers

without children would receive a maximum credit of $1,000 and single parents would receive a maximum credit of $2,000. Married couples without children would receive a maximum credit of $2,000 and married parents would receive a maximum credit of $3,000. Benefits would phase in more slowly for single people (12.5 percent of earnings) than married couples (16.67 percent of earnings). Benefits would phase out at the same rate for all credit recipients (14.29 percent of income). The proposed EITC benefits are higher for adults without children at home, but lower for families with multiple children, than 2022 levels.

FIGURE 4

Proposed EITC, FSA 2.0

By filing status and presence of children



Source: Urban-Brookings Tax Policy Center calculations.
Notes: EITC = earned income tax credit; FSA 2.0 = Family Security Act 2.0. Assumes all income comes from earnings. Households with children would be defined as those with dependents up to age 18; households with dependents age 19 and above who previously qualified for the EITC would continue to receive the current EITC based on the number of adult dependents in their household.

3. Reducing the Child and Dependent Care Tax Credit (CDCTC)

FSA 2.0 would substantially limit the CDCTC. Currently, the CDCTC provides a credit of up to 35 percent of child care costs for children under age 13 or any dependent physically or mentally incapable of self-care. Eligible child care expenses are limited to $3,000 per dependent (up to $6,000 for families with two or more dependents). The credit is nonrefundable; it can only be used to offset taxes owed. Higher credit rates apply to lower-income families but because the CDCTC is nonrefundable, almost all benefits go to families with income in the top 60 percent of the income distribution.[9] FSA 2.0 would allow the expenses for the care of disabled dependents to continue to qualify for the CDCTC but expenses for children under 13 would no longer qualify for the CDCTC.

4. Eliminating the State and Local Tax (SALT) Deduction

FSA 2.0 would eliminate the SALT deduction. Currently, around 10 percent of taxpayers itemize deductions from their taxable income instead of claiming the standard deduction each year. Those who itemize can deduct taxes paid to state and local

[9] "T21-0047 – Tax Benefit of the Child and Dependent Care Tax Credit (CDCTC) under Pre-American Rescue Plan Act Law, by Expanded Cash Income Percentile, 2021," Tax Policy Center Microsimulation Model, March 23, 2021, https://www.taxpolicycenter.org/model-estimates/tax-benefits-provisions-affecting-children-march-2021/t21-0047-tax-benefit-child-and.

governments from their federal taxable income, up to a cap of $10,000.[10] FSA 2.0 would eliminate this deduction. Some itemizers would likely switch to claiming the standard deduction as a result.

5. Eliminating the Option to File as a Head of Household

The last substantial change FSA 2.0 would make to the tax code is removing the head-of-household filing option. Under current law, taxpayers can file as single, married, or head of household. In most cases, unmarried taxpayers with children use head-of-household filing status, which provides a larger standard deduction than single filers (though lower than that for married couples) and allows more income to be taxed at lower rates than single filers. If head-of-household status were eliminated, single parents would likely file as single, resulting in higher taxes owed for single parents with about $30,000 or more of income or those whose income exceeds the maximum for single filers in their current top tax bracket. Some families would also face reduced eligibility for other benefits in the tax code. Income eligibility for education and retirement savings credits, for example, is higher for head-of-household filers than single filers.

Estimating FSA 2.0

We estimate the effect of FSA 2.0 on child poverty using the Analysis of Transfers, Taxes, and Income Security (ATTIS) model and data from the 2018 American Community Survey (ACS).[11] We then compare child poverty under FSA 2.0 with estimates of child poverty in 2018 (baseline) as well as under an expanded CTC. ATTIS simulates eligibility and benefits in the major means-tested benefit programs and models federal and state income taxes and credits. We assess poverty using the SPM, which considers a more comprehensive set of family financial resources and needs than the official poverty measure (Fox, Glassman, and Pacas 2020).[12] As the official poverty measure focuses on pretax cash income, it does not include the effects of refundable tax credits, such as the CTC and EITC. Because the policies that we analyze in this brief include major changes to those programs, the SPM is a more appropriate measure.

We model the effects of FSA 2.0 relative to a baseline that reflects data and policies from 2018. We also used this approach when modeling a permanent expansion of the CTC (Acs and Werner 2021). We have updated the estimates from Acs and Werner (2021) and compare the updated results with our estimates of the effects of FSA 2.0.

We model FSA 2.0 based on the framework released on June 15, 2022, along with clarifying information provided through email with Senator Romney's staff.[13] Senator Romney has noted that aspects of the plan could change.[14] Appendix A provides additional details regarding our assumptions when modeling FSA 2.0. Because of data limitations, we are unable to model some parts of the plan.[15] It is possible that, depending on how the legislative text is written, the child benefit could result in reductions to other benefits that people receive. We do not model any of those potential changes.

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[10] "What Are Itemized Deductions and Who Claims Them?" *Tax Policy Center Briefing Book,* accessed November, 28, 2022, https://www.taxpolicycenter.org/briefing-book/what-are-itemized-deductions-and-who-claims-them.

[11] We obtained the 2018 ACS data from the IPUMS USA database (Ruggles et al. 2020). For more information on ATTIS, see https://www.urban.org/research-methods/attis-microsimulation-model.

[12] Our SPM estimates generally follow Census Bureau methodology (Fox, Glassman, and Pacas 2020). However, we adjust for underreporting of reported benefit amounts; use ATTIS rather than Census Bureau estimated amounts for benefits, taxes, and tax credits that are not reported in the ACS; and use family relationship identifiers from the IPUMS USA database (Ruggles et al., 2020).

[13] Senator Mitt Romney, "Romney, Burr, Daines Announce Family Security Act 2.0," June 15, 2022, https://www.romney.senate.gov/romney-burr-daines-announce-family-security-act-2-0/.

[14] Mitt Romney, "Sen. Mitt Romney (R-UT) on the Future of Conservative Family Policy," American Enterprise Institute, filmed July 28, 2022, 2:07–42:30, https://www.aei.org/events/a-conversation-with-sen-mitt-romney-r-ut-the-future-of-conservative-family-policy/.

[15] The Institute on Taxation and Economic Policy has also released an analysis of FSA 2.0 (https://itep.org/new-report-shows-romney-child-tax-credit-proposal-falls-short-for-low-and-moderate-income-families/). Our modeling differs from theirs in that we use different underlying data and we incorporate information on citizenship status, while they do not. There are likely different modeling assumptions as well.

RESULTS

We estimate that FSA 2.0, had it been in place in 2018, would lift over 1.2 million children out of poverty and reduce the child poverty rate from 14 percent to 12.4 percent (table 1). As a comparison, we have also included in the table below the projected antipoverty effects of the expanded CTC under ARPA in 2018.[16] The expanded CTC would have a greater antipoverty effect than FSA 2.0. The number of children in poverty would fall by over 41 percent under the expanded CTC. For a state breakdown see appendix B.

TABLE 1

Child Poverty Reduction

Under FSA 2.0 and ARPA CTC

	Baseline	FSA.20	Expanded CTC	FSA 2.0 Change in Poverty	Expanded CTC Change in Poverty
Percent of children in SPM poverty	14.0%	12.4%	8.2%	-1.67	-5.79
Number of children in SPM poverty (thousands)	10,246	9,030	6,016	-1,217	-4,231

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.
Notes: ARPA = American Rescue Plan Act; CTC = child tax credit; FSA 2.0 = Family Security Act 2.0; SPM = Supplemental Poverty Measure. Some numbers may not sum exactly to totals due to rounding.

While poverty falls for children of all races and ethnicities under FSA 2.0, the decline is not uniform across groups (table 2). The share of white children in poverty falls the most, by almost 17 percent. Children of unidentified race or multiple races would see their poverty rate decline by 15 percent, and the share of Black children in poverty would drop about 14 percent. Poverty among Asian and Pacific Islander (AAPI) children would fall by just over 12 percent. Hispanic children would experience the lowest reduction in child poverty, a reduction of 7.4 percent. The expanded CTC reduces poverty to a greater extent for all racial and ethnic groups than FSA 2.0. The poverty rate for Black children would decline by over half with the expanded CTC, about three times the decline under FSA 2.0.

[16] The expanded CTC modeled here is the same as the plan modeled in Acs and Werner (2021), with slight adjustments made to both the baseline and alternative scenarios to make the results comparable with our analysis of FSA 2.0. The changes include allowing more head-of-household filers and some minor adjustments to simulations of some of the other programs that feed into the poverty estimate, as well as a code update. Acs and Werner (2021) estimate that child poverty would fall 41.3 percent, from 14.2 percent to 8.4 percent. With the adjustments made for this analysis, we still see a 41.3 percent drop in child poverty, from 14.0 percent to 8.2 percent.

TABLE 2

Children in SPM Poverty by Race and Ethnicity

Under FSA 2.0 and ARPA CTC

	Percent of Children in Poverty			Number of Children in Poverty (Thousands)			Percent Reduction	
	Baseline	FSA 2.0	Expanded CTC	Baseline	FSA 2.0	Expanded CTC	FSA 2.0	Expanded CTC
AAPI children	14.8%	13.0%	11.3%	524	460	398	-12.2%	-24.1%
Black children	20.1%	17.3%	10.0%	1,958	1,680	972	-14.2%	-50.4%
Hispanic children	23.8%	22.0%	14.7%	4,421	4,093	2,721	-7.4%	-38.4%
White children	7.5%	6.3%	4.4%	2,766	2,308	1,611	-16.6%	-41.8%
Children of other race or multiple races	12.8%	10.8%	6.9%	577	488	314	-15.3%	-45.6%
Overall	14.0%	12.4%	8.2%	10,246	9,030	6,016	-11.9%	-41.3%

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.
Note: AAPI =Asian-American or Pacific Islander; ARPA = American Rescue Plan Act; CTC = child tax credit; FSA 2.0 = Family Security Act 2.0; SPM = Supplemental Poverty Measure.

We next look at a more detailed breakdown of resources relative to poverty. The percent of children in deep poverty (resources less than 50 percent of the poverty level) falls under both FSA 2.0 and the expanded CTC (table 3). The decline is negligible under FSA 2.0, dropping from 2.9 percent to 2.7 percent, while the expanded CTC reduces the percent of children in deep poverty by over half. The primary reason that very-low-income children are less likely to benefit from the policy than the average child is that the child benefit at the centerpiece of FSA 2.0 provides no benefit to families who have no earnings, and benefits phase in with earnings. This contrasts with the expanded CTC, which provides its full benefit even to families without any earnings. The phase-in may also help explain why FSA 2.0 has a smaller antipoverty effect for non-white children, as Hispanic and Black families—who have been historically disadvantaged in the labor market—tend to have lower earnings than white families and thus appear more likely to not receive the full benefit.[17] Issues related to citizenship are likely important as well, especially for Hispanic children. We discuss this further below. Although the expanded CTC has a noticeably larger impact on deep poverty, both FSA 2.0 and the expanded CTC reduce the number of children living in families with low incomes (income below 200 percent of the poverty level).

TABLE 3

Percent Distribution of Children by Family Resources Relative to SPM Poverty Level

Under FSA 2.0 and ARPA CTC

SPM Resources to Poverty Ratio	Baseline	FSA 2.0	Expanded CTC
< 50%	2.9%	2.7%	1.3%
50 to 100%	11.1%	9.6%	6.9%
100 to 200%	37.6%	36.8%	40.2%
>200%	48.3%	50.9%	51.5%

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.
Notes: ARPA = American Rescue Plan Act; CTC = child tax credit; FSA 2.0 = Family Security Act 2.0; SPM = Supplemental Poverty Measure.

As shown in the previous tables, FSA 2.0 would, on average, improve the economic well-being of families with children. However, because the plan includes offsets that reduce some benefits, some families would be made worse off by FSA 2.0 relative to the baseline. For instance, a single parent with two children between the ages of 6 and 17 earning $25,000 would see their total

[17] "Earnings Disparities by Race and Ethnicity," U.S. Department of Labor, accessed November, 28, 2022, https://www.dol.gov/agencies/ofccp/about/data/earnings/race-and-ethnicity.

resources fall by over $1,600 under FSA 2.0 (Marr et al. 2022).[18] The changes that FSA 2.0 makes to the EITC would have a particularly large impact on single parents. The maximum EITC that a single parent with one child could receive under 2018 law is $3,461. Under FSA 2.0, that maximum is $2,000, a drop of $1,461. Conversely, the maximum EITC that a married couple with one child could get falls by only $461, from $3,461 to $3,000. Understanding the trade-offs of FSA 2.0 is an important part of assessing its overall impact.

To get a better understanding of who is better or worse off under FSA 2.0, we examine the distribution of children by whether they are in families that experience their resources increase, decrease, or change by less than $100 (table 4). White children are most likely to be in families with an increase in resources. Over a quarter of Hispanic children and AAPI children would see their family's resources decline, compared with about 19 percent of all children. Black children are more likely than white children to be in families made worse off by FSA 2.0, but less likely than Hispanic and AAPI children.

TABLE 4

Net Resources Change by Race and Ethnicity

Under FSA 2.0

	Net Increase in Resources	Net Decrease in Resources	No Change in Resources
AAPI children	65.7%	26.2%	8.1%
Black children	67.7%	18.0%	14.3%
Hispanic children	65.5%	26.2%	8.3%
White children	80.1%	14.3%	5.6%
Children of other race or multiple races	72.8%	18.6%	8.6%
Overall	73.6%	18.6%	7.8%

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.
Note: AAPI = Asian-American or Pacific Islander; FSA 2.0 = Family Security Act 2.0. Children with "no change in resources" are in families with changes of $100 or less in either direction.

We next show the share of children above the poverty level in each racial and ethnic group that are put in poverty by FSA 2.0 and the share of poor children that are removed from poverty removed from poverty by FSA 2.0 (table 5). For instance, in the first row, 0.2 percent of AAPI children who are above the poverty level in the baseline are put into poverty by FSA 2.0, while almost 19 percent of children who are below the poverty level in the baseline are removed from poverty. This table can partly explain why the antipoverty effect of FSA 2.0 on Hispanic children is muted. While 14.5 percent of Hispanic children in poverty in the baseline get lifted out poverty, over two percent of Hispanic children get moved into poverty by FSA 2.0, compared with less than one percent of children overall. For a similar table with more detail, please see appendix C.

[18] Marr et al. (2022) estimate the family's resources would fall by $1,665. Our estimates suggest a smaller decline, around $800. The difference between these estimates is because Marr et al. (2022) uses 2022 EITC parameters in the baseline, while our analysis uses 2018 EITC parameters.

TABLE 5

Percent Distribution of Children by Poverty Status and Race and Ethnicity

Under Baseline and FSA 2.0

Race/Ethnicity	Share of Children Put in Poverty by FSA 2.0	Share Children Removed from Poverty by FSA 2.0
AAPI children	0.2%	18.7%
Black children	0.8%	17.4%
Hispanic children	2.2%	14.5%
White children	0.3%	14.1%
Children of other race or multiple races	0.4%	17.9%
Overall	0.7%	16.3%

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.
Note: AAPI = Asian-American or Pacific Islander; FSA 2.0 = Family Security Act 2.0.

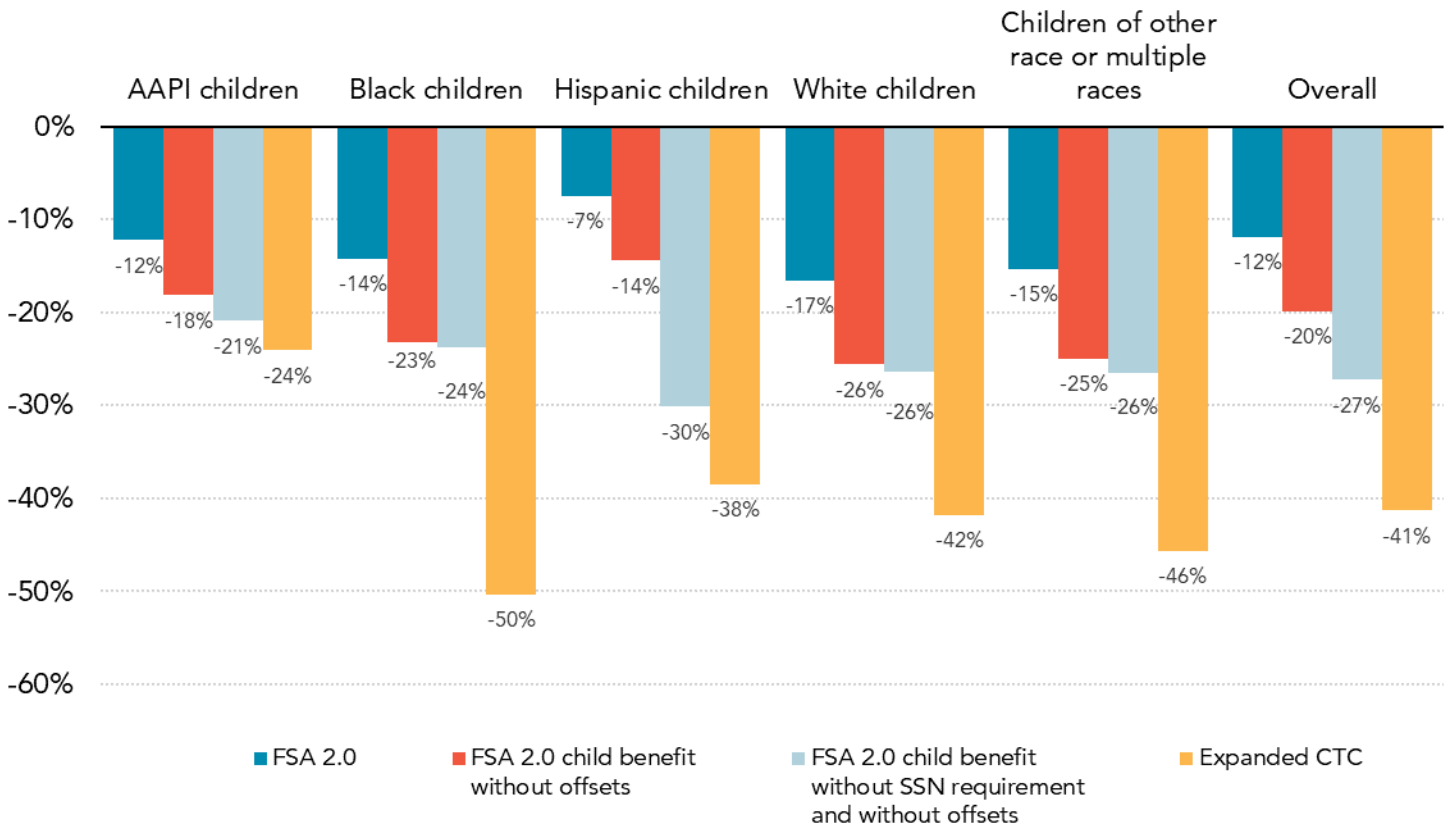
Next, we examine how changes to some provisions of FSA 2.0 could change its effectiveness at reducing child poverty. We present two alternative policies. The first alternative shows the antipoverty effect of just replacing the CTC with the child benefit from FSA 2.0 without any other changes that would offset the program's cost, such as changes to the EITC. The simulation with the new child benefit but without the additional changes has a greater antipoverty effect than FSA 2.0 overall, but the impact on Hispanic children was especially large: the number of Hispanic children removed from poverty is nearly twice as large under the alternative plan. This result shows that parts of FSA 2.0 designed to offset the cost, such as the changes to the EITC, have a particularly large impact on Hispanic children.

The second alternative builds on the first by dropping the requirement that at least one of the parents claiming a child for the benefit must have a SSN along with the cost offsets. Again, this change has its greatest effect on Hispanic children, more than doubling their poverty reduction relative to the child benefit with the SSN restriction. This shows that the SSN requirement is an impediment to an even greater antipoverty impact. Although these two alternatives reduce poverty by more than FSA 2.0, the expanded CTC reduces poverty by more than the two alternatives overall and for all groups.

FIGURE 5

Percent Reduction of Children in SPM Poverty by Race and Ethnicity

Under FSA 2.0, Two Alternative Policies, and ARPA CTC



Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.
Note: AAPI = Asian-American or Pacific Islander; ARPA = American Rescue Plan Act; CTC = child tax credit; FSA 2.0 = Family Security Act 2.0; SPM = Supplemental Poverty Measure.

DISCUSSION

There is widespread agreement that it is critical to children's futures to provide adequate income to support children's well-being and reduce hardship (National Academies of Sciences, Engineering, and Medicine 2019). During the COVID-19 pandemic, the expansion of multiple programs brought child poverty to historically low levels, with the largest programs operating through the federal income tax system. Although members of Congress attempted to extend the expanded CTC, they were unable to build a strong enough coalition in the Senate to enact it. Although debate continues on an extension of the expanded CTC, FSA 2.0 may offer another opportunity to provide substantial support to many families with children.

Key differences between FSA 2.0 and the expanded CTC exist. Although both the expanded CTC and FSA 2.0 would provide substantial benefits to families with children, the expanded CTC removes more children from poverty overall, and especially has a greater impact on Hispanic child poverty and deep child poverty.

The budgetary costs of the programs are also different. We estimate that FSA 2.0 would cost just under $45 billion per year, while the expanded CTC would cost around $100 billion per year (both estimates are in 2018 dollars). The expanded CTC is more expensive, but also more efficient in terms of poverty reduction, lifting over three times as many children from poverty as FSA 2.0 for roughly twice the cost. These costs may not align precisely with estimates from other models, as differing estimates arise from different data sources, assumptions, and methodology. Models that are based on public-use samples of tax returns, for example, rather than household survey data like the ATTIS model, may be better able to estimate savings generated from changes to the tax code that offset the child benefit of FSA 2.0.

The design of FSA 2.0 emphasizes the importance of paid employment, as the policy would give no benefit to a family with no earnings, and families are only able to receive the full benefit if they earn at least $10,000 per year. This exclusion of the poorest families from the full benefit contrasts with the expanded CTC, which provides full benefits even to families with little or no earnings. This major difference between the design of the two policies drives much of the difference in how well each plan would reduce poverty and deep poverty. This is borne out by the difference in poverty reduction between an alternate specification of FSA 2.0 child allowance without SSN requirements and the expanded CTC (figure 5).

Another important difference, although not a major driver of the antipoverty effects, is that FSA 2.0 maintains its full benefit until the phase-out beings at $200,000 ($400,000 for joint filers). The expanded CTC, on the other hand, phases out from its higher value of $3,000 (or $3,600 for young children) to $2,000 beginning at $75,000 ($150,000 for married couples and $112,500 for heads of household).

Some low-income groups would be impacted much less by FSA 2.0 than the expanded CTC. In part, this results from FSA 2.0 changes to the EITC, which are used to offset some of the costs of the larger child benefit. The elimination of head-of-household filing status will also raise taxes for some low-income families who now have to file as single and are eligible for a smaller deduction. Some low- or middle-income families may also lose their child and dependent care credit, although because this credit is nonrefundable, it will not have as large an impact as the EITC changes. Other tax changes designed to increase revenue, namely the elimination of the SALT deduction, impact higher-income families and have little impact on poverty levels.

We estimate there would be almost no change in deep poverty under FSA 2.0. The share of children in families with income below 50 percent of the SPM poverty level would decline from 2.9 percent to 2.7 percent under FSA 2.0 but would be cut by more than half under the expanded CTC to 1.3 percent. The share of children in families with income below SPM poverty would drop from 14.0 percent to 12.3 percent under FSA 2.0 and to 8.2 percent under the expanded CTC.

FSA 2.0 also has a much smaller effect on the share of Black and Hispanic children in families with income below SPM poverty than does the expanded CTC. We estimate the share of Black children in poverty would drop from 20.1 percent to 17.3 percent under FSA 2.0 and to 10.0 percent under the expanded CTC. Similarly, the share of Hispanic children would drop from 23.8 percent to 22.0 percent under FSA 2.0 and to 14.7 percent under the expanded CTC. The share of white children in poverty would fall from 7.5 percent to 6.3 percent under FSA 2.0 and to 4.4 percent under the expanded CTC.

In this brief, we have documented how FSA 2.0 would reduce child poverty, and how it compares to another recent policy designed to reduce child poverty, the expanded CTC. FSA 2.0 falls short of the expanded CTC in terms of poverty reduction cross a variety of different metrics. That being said, FSA 2.0 would still result in a meaningful reduction in child poverty, lifting over 1.2 million children above the poverty line. This would be a substantial reduction and would constitute a positive development for children and families.

APPENDIX A: MODELING ASSUMPTIONS

Below, we provide more details about the assumptions we made in modeling FSA 2.0 in ATTIS.

- FSA 2.0 would provide a benefit of $700 per month for the last four months of a pregnancy. We do not model this part of the benefit, as the ACS does not provide information on when a child is born. We assume that all children who are less than a year old in the survey can be claimed for and receive the child benefit for the full year. Similarly, children who are 17 years old can also be claimed for the full year, and people who are 18 years old in the survey cannot be claimed at all. In practice, FSA 2.0 benefit would begin four months before birth and end once a child turns age 18.
- We assume that the program will have full participation; that is, every family that is eligible will receive their benefit. This follows from our assumptions in the baseline, where was assume that all families who are eligible for refundable tax credits receive them. When modeling the expanded CTC, we assume that 22 percent of tax units that do not file taxes will not receive the expanded CTC. Because FSA 2.0 does not include a fully refundable portion, all people affected by FSA 2.0 are already assumed to file in our baseline estimates.
- As outlined in the framework, we maintain the EITC for tax filers claiming dependents over age 18 completely independently from the reformed EITC. That means that a family eligible for the EITC with one child age 18 or under and one dependent over age 18 would get both the new, reformed EITC amount for a filer with children, plus the original EITC amount for a filer with one child.
- The framework specifies that the "child portion" of the child and dependent tax credit should be eliminated. Because ATTIS only captures the child portion of the CDCTC in the baseline, we eliminate the entire credit. In practice, the vast majority of benefits from the CDCTC accrue to families with children under age 13.
- The framework indicates that for families in the "phase in" portion of the benefit, their earned income determines how much benefit they get, which we modeled. The framework does not define what income measure to use for the "phase out," so we used adjusted gross income, consistent with the phase-out of the CTC.
- The framework says that someone claiming a child, for both the new child benefit and the new EITC, must have "physical and legal custody" of that child. We interpreted that as a stricter standard than current law with respect to the EITC. We only allowed someone to claim a child if they are the biological, adoptive, or stepparent of a child. This means that an older sibling who cares for his or her younger sibling would not be able to claim the EITC or the new child benefit unless the older sibling had legal custody of the younger sibling, whereas under current law the older sibling could claim the younger sibling.
- While we eliminated the CTC (both the portion that can be received as a refund and the portion that offsets taxes owed) as outlined in the framework, we maintain the $500 ODTC that can be claimed for people not eligible to be claimed for the standard CTC. We modified the ODTC to prevent 17-year-olds, who can be claimed for the new child benefit, from also being claimed for the credit for other dependents.
- FSA 2.0 requires at least one parent claiming a child for the benefit to have an SSN; the child must also have an SSN. We model this restriction by assuming undocumented and temporary immigrants do not have SSNs, and that everyone else does. Noncitizen legal status is imputed through a multistep process following methods originally developed by Jeffrey Passel and Rebecca Clark at the Urban Institute and subsequently refined (see Passel and Cohn 2018).
- We did not deflate any of the elements of the plan, so our results show the effects of the plan had it been implemented as is in 2018.

APPENDIX B

Percent of Children in SPM Poverty by State

Under FSA 2.0 and ARPA CTC

	Baseline	FSA 2.0	Expanded CTC
Alabama	14.8%	13.5%	7.3%
Alaska	11.9%	7.4%	5.8%
Arizona	15.3%	13.1%	8.8%
Arkansas	13.8%	12.4%	6.8%
California	20.3%	17.8%	13.5%
Colorado	11.7%	10.3%	7.3%
Connecticut	10.9%	9.8%	6.6%
Delaware	13.0%	10.9%	8.3%
District of Columbia	14.6%	13.4%	7.1%
Florida	18.0%	16.1%	10.9%
Georgia	14.7%	13.4%	8.7%
Hawaii	9.7%	6.6%	4.9%
Idaho	9.9%	9.3%	5.9%
Illinois	11.3%	10.6%	6.5%
Indiana	11.6%	9.9%	6.2%
Iowa	7.1%	6.0%	3.8%
Kansas	8.8%	8.2%	4.9%
Kentucky	13.4%	11.0%	6.9%
Louisiana	15.9%	12.9%	7.6%
Maine	6.9%	6.0%	3.9%
Maryland	12.1%	10.9%	7.4%
Massachusetts	10.3%	8.9%	6.5%
Michigan	11.6%	9.3%	6.3%
Minnesota	5.6%	4.7%	3.1%
Mississippi	16.3%	14.0%	8.0%
Missouri	11.3%	9.2%	5.6%
Montana	9.1%	7.9%	4.9%
Nebraska	6.7%	6.0%	3.2%
Nevada	15.4%	14.1%	9.2%
New Hampshire	8.4%	7.3%	4.1%
New Jersey	14.2%	12.6%	9.2%
New Mexico	17.4%	15.3%	8.8%
New York	15.3%	13.2%	9.4%
North Carolina	14.8%	13.8%	8.2%
North Dakota	4.8%	4.5%	2.5%
Ohio	10.2%	8.5%	5.1%
Oklahoma	12.8%	11.7%	6.8%
Oregon	13.1%	10.4%	6.9%
Pennsylvania	10.3%	8.8%	5.8%
Rhode Island	9.7%	9.8%	6.5%
South Carolina	14.7%	12.8%	7.8%
South Dakota	10.1%	8.2%	5.0%
Tennessee	14.8%	13.6%	8.0%
Texas	17.0%	15.7%	9.9%
Utah	7.0%	6.2%	3.9%
Vermont	6.8%	6.3%	2.6%
Virginia	14.3%	12.5%	9.4%
Washington	9.2%	8.0%	5.3%
West Virginia	13.6%	12.2%	7.0%
Wisconsin	6.9%	5.9%	3.7%
Wyoming	10.4%	8.5%	5.1%

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.
Notes: ARPA = American Rescue Plan Act; CTC = child tax credit; FSA 2.0 = Family Security Act 2.0; SPM = Supplemental Poverty Measure.

APPENDIX C

Percent Distribution of Children by Family Resources Relative to SPM Poverty Level and Race and Ethnicity

Under Baseline and FSA 2.0

		Percent of SPM Poverty after FSA 2.0				
Race/ethnicity	**Percent of SPM poverty before FSA 2.0**	**< 50% poverty**	**50 to < 100% poverty**	**100 to < 200% poverty**	**200 to < 300% poverty**	**300% or more poverty**
AAPI children	< 50% poverty	91.2%	8.8%	0.0%	0.0%	0.0%
	50 to < 100% poverty	1.0%	80.2%	18.8%	0.0%	0.0%
	100 to < 200% poverty	0.0%	1.0%	93.7%	5.3%	0.0%
	200 to < 300% poverty	0.0%	0.0%	1.3%	94.4%	4.4%
	300% or more poverty	0.0%	0.0%	0.0%	0.7%	99.3%
Black children	< 50% poverty	90.5%	9.5%	0.0%	0.0%	0.0%
	50 to < 100% poverty	0.5%	78.3%	21.2%	0.0%	0.0%
	100 to < 200% poverty	0.0%	1.2%	94.3%	4.5%	0.0%
	200 to < 300% poverty	0.0%	0.0%	2.1%	93.9%	4.1%
	300% or more poverty	0.0%	0.0%	0.0%	1.3%	98.7%
Hispanic children	< 50% poverty	89.4%	10.6%	0.0%	0.0%	0.0%
	50 to 100% poverty	1.9%	80.3%	17.8%	0.0%	0.0%
	100 to < 200% poverty	0.0%	3.6%	91.0%	5.4%	0.0%
	200 to < 300% poverty	0.0%	0.0%	2.5%	92.2%	5.3%
	300% or more poverty	0.0%	0.0%	0.0%	1.2%	98.8%
White children	< 50% poverty	88.5%	11.5%	0.0%	0.0%	0.0%
	50 to 100% poverty	0.7%	74.6%	24.8%	0.0%	0.0%
	100 to < 200% poverty	0.0%	0.5%	89.1%	10.3%	0.0%
	200 to < 300% poverty	0.0%	0.0%	0.6%	91.4%	8.0%
	300% or more poverty	0.0%	0.0%	0.0%	0.4%	99.6%
Children of other race or multiple races	< 50% poverty	90.7%	9.3%	0.0%	0.0%	0.0%
	50 to 100% poverty	0.6%	76.2%	23.1%	0.0%	0.0%
	100 to < 200% poverty	0.0%	0.9%	91.6%	7.5%	0.0%
	200 to < 300% poverty	0.0%	0.0%	1.1%	93.6%	5.4%
	300% or more poverty	0.0%	0.0%	0.0%	0.7%	99.3%
Overall	< 50% poverty	89.5%	10.5%	0.0%	0.0%	0.0%
	50 to 100% poverty	1.2%	78.2%	20.6%	0.0%	0.0%

		Percent of SPM Poverty after FSA 2.0				
Race/ethnicity	**Percent of SPM poverty before FSA 2.0**	**< 50% poverty**	**50 to < 100% poverty**	**100 to < 200% poverty**	**200 to < 300% poverty**	**300% or more poverty**
	100 to < 200% poverty	0.0%	1.7%	91.0%	7.4%	0.0%
	200 to < 300% poverty	0.0%	0.0%	1.2%	92.1%	6.7%
	300% or more poverty	0.0%	0.0%	0.0%	0.6%	99.4%

Source: Urban Institute's Analysis of Transfers, Taxes, and Income Security model, using data from the 2018 American Community Survey.
Notes: AAPI = Asian-American or Pacific Islander; FSA 2.0 = Family Security Act 2.0; SPM = Supplemental Poverty Measure. This table shows children by race and ethnicity and SPM resources relative to the poverty level in the baseline and under FSA 2.0. For instance, 91.2 percent of AAPI children who are in families with resources less 50 percent of the poverty level in the baseline remain under 50 percent of the poverty level under FSA 2.0 and 8.8 percent are moved to between 50 and 100 percent. Similarly, 1 percent of AAPI children with resources between 50 and 100 percent of the poverty level in the baseline are moved under 50 percent under FSA 2.0. About 80 percent stay between 50 and 100 percent of the poverty line, and about 19 percent are moved to between 100 and 200 percent of the poverty level.

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