Economic Security Project

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The Child Tax Credit: Essential Economic Security for Prenatal-to-3 Families

Robust Child Tax Credits are some of the most powerful tools available to support the nearly 15 million PN-3 kids and their families during the most developmentally critical years.

Families across America are struggling with the affordability crisis and resulting economic instability. The cost of the basics — from groceries to housing to child care — is skyrocketing. Nowhere are the stakes higher than among prenatal-to-three (PN-3) families working to lay a strong foundation of emotional and physical wellbeing, financial security, and educational opportunity for their young children. But financial security is particularly out of reach for those families. Not only do infants and toddlers consistently live in higher rates of poverty compared to older kids and adults, real-time RAPID Survey data shows material hardship among families with young kids is currently among the highest it's been since the COVID pandemic — with more than half of families with kids under six having difficulty meeting basic needs.

The good news: we know what works to help families through unpredictability. One of the most effective tools is unconditional cash. By giving families cash directly — including through tax credits and guaranteed income programs — policymakers can reduce economic stress, improve health outcomes, and narrow racial income disparities.

Economic Security Matters Most During Prenatal-to-3 Years

The body of research on the harms of childhood poverty is plentiful and consistent. Economic fragility in early childhood is linked to poorer physical health, educational challenges, housing insecurity, and more. During this period, families face new and higher costs — the average out-of-pocket cost of pregnancy and childbirth alone is more than $2,700, and medical costs for babies' first two years average $1,500 out-of-pocket — disruptions to work and income, and the challenge of finding affordable childcare.

These risks can be particularly crushing for families of color, who experience disparities across many measures of wellbeing because of the compounding and overlapping effects of racist policies that pervade our systems and institutions. This can result in these families having higher rates of poverty and significantly less savings to fall back on during economic shocks, and can make stable housing, quality childcare, and adequate nutrition even harder to secure even when working full-time.

Cash through tax credits and guaranteed income is a proven solution for childhood economic hardship. The research on the efficacy of cash for families with young children is substantial. According to Prenatal-to-3 Policy Impact Center's analysis, cash transfers:

- ➔ Increase household resources and reduce racial disparities in child poverty;
- ➔ Promote healthy births;
- ➔ Improve parents' mental health; and
- ➔ Support children's healthy development.

When families receive direct cash support during pregnancy and infancy, the impact is immediate and transformative. Early findings from Michigan's Rx Kids program show significant reductions in postpartum depression, anxiety, and parental stress, along with a notable increase in prenatal care utilization. The most recent research shows that cash transfers under the program nearly eliminated evictions, reduced housing debt, and gave families the security to buy the food they wanted.

Child Tax Credits Help All Families Build Economic Power

A well-designed Child Tax Credit is one of the strongest childhood poverty-fighting policies we have. When Congress expanded the CTC in 2021 to make it available to all low- and middle-income families and pay it monthly, the Credit brought childhood poverty to its lowest rate on record, cutting the child poverty rate nearly in half from 9.7% to 5.2% and by lifting 2.9 million children out of poverty, including 1 million children ages 0-5. The poverty rate among Black and Latino children fell by 6.3 points.

Since Congress allowed that expansion to expire, the full Credit is now restricted to families above a certain earnings threshold, so it has lost much of its potency. Because of the expiration of the 2021 expansion and additional damaging changes in HR.1, 28% of children — 19 million — are excluded from full CTC benefits in 2025. Beyond income limits, all children with undocumented parents — including the vast majority of the 2.7M U.S. citizen children with only undocumented parents in the U.S. — are completely excluded from the credit.

With gridlock at the federal level, states can still act by enacting or improving their state tax credits. When the expanded federal CTC expired, states responded swiftly and boldly: since 2021, 22 states plus DC have passed more than 50 new policies enacting or expanding cash tax credits.

Most state Child Tax Credit policies prioritize young children. In recognition of the importance of the earliest years and the hardship that often accompanies them, it has been common for states to implement Child Tax Credits that are either higher for young children or are limited altogether to families with young children:

- **California** provides a Young Child Tax Credit of $1,154 for CalEITC-eligible families with a child under 6
- **Colorado's** Family Affordability Tax Credit is $3,200 per child under 6, or $2,400 for older kids — on top of a state CTC for kids under 6
- **Georgia** offers a nonrefundable credit of $250 per child for kids under 6
- **Illinois** provides a Child Tax Credit equal to 40% of state EITC for families with kids under 12
- **Maine** doubles its $300 credit to $600 for kids under 6
- **Maryland** provides up to $500 per child up to 6 for very low-income families
- **Massachusetts** provides $440 for each child up to 13
- **New Jersey** provides $1,000 per child under 6
- **New York** doubles its $500 credit to $1,000 for kids zero to 3
- **Oregon** provides up to $1,000 per child under 6
- **Utah** provides a nonrefundable $1,000 credit for kids ages 1-5
- **Vermont** provides a $1,000 credit for kids under 7

States should not enact credits that proactively exclude the youngest children. For example, until last year, New York's credit inexplicably excluded kids under age four, and Utah's credit currently excludes babies up to their first birthday — both policies that would be stronger if all babies and toddlers were included instead.

With state budgets strained, state policymakers should choose to protect and expand these programs, not cut them. Child Tax Credits pay for themselves ten-fold, so it would be shortsighted of state budget writers to try to find savings by cutting these critical programs. Advocates in DC recently fought back — at least temporarily — a rollback of its recently-enacted CTC, and other states could follow as budgets tighten under the strain of H.R. 1 cuts.

Credit design should take into account the circumstances of each state, and target resources where people need them most. States often enact a narrow tax credit policy and then build on it year after year to expand scope, increase the credit, or improve implementation. Generally speaking, states should strive to include these key elements:

- **Make the credit fully available to all low- and middle-income families**, without counterproductive income tests;
- **Target resources to the families that need the most help**, including families with the lowest incomes and families with the youngest children;
- **Make the credit fully available to all kids who reside in the state**, regardless of their parents' immigration status;
- **Pay credits monthly** to better match families' real-time needs; and
- **Make it simple for eligible families to get the credit**.