Feds to pay hundreds per child to American families; critics warn of economic fallout

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Americans with children will begin receiving checks from the Internal Revenue Service in a few weeks, but economists worry the payments could have long-term economic consequences.

The Internal Revenue Service said the payments, which will be sent out beginning July 15, are estimated to go to 39 million households, affecting 88% of children in the country.

The payments come after changes to federal child tax credit rules included in the COVID relief bill passed by Congress earlier this year.

Critics say the funds needed for this program will put an extra burden on taxpayers, even as the economy struggles to recover from COVID.

“Already, more than one-third of U.S. households pay no federal income taxes, and higher child tax credits will raise the number of nonpayers,” said Chris Edwards, an expert at the Cato Institute. “That is a problem because these households become biased to vote in favor of continuous government expansion. Refundable tax credits are not tax cuts – they are subsidies, paid for by higher taxes on other Americans and thus will cause damage to the overall economy. The tax code should not subsidize families with children over other families. The fairest and simplest tax code would have no such political carve-outs for particular groups."

The tax credit is fully refundable, which means families can receive the funds even if they pay no income tax. The credit is also set up so that recipients can begin receiving part of payments on a monthly basis ahead of the next year.

“For tax year 2021, families claiming the CTC will receive up to $3,000 per qualifying child between the ages of 6 and 17 at the end of 2021,” the IRS said in a statement. “They will receive $3,600 per qualifying child under age 6 at the end of 2021. Under the prior law, the amount of the CTC was up to $2,000 per qualifying child under the age of 17 at the end of the year. The increased amounts are reduced (phased out), for incomes over $150,000 for married taxpayers filing a joint return and qualifying widows or widowers, $112,500 for heads of household, and $75,000 for all other taxpayers.”

The COVID relief bill that put this plan in place only applies to 2021, but there has already been a push from some Democrats to make the plan permanent. House Democrats introduced legislation in February to make the monthly payments permanent and extend them to the U.S. Territories.

“The Child Tax Credit is a proven tool that successfully lifts families out of poverty and shrinks class divides but it still leaves behind one-third of all children who are in families who earn too little to get the full credit. Those left behind disproportionately include families led by single mothers, rural families, and one-half of Black and Hispanic children,” said Rep. Suzan DelBene, D-Wash. “The American Family Act would correct this issue by giving lower-income families access to the full credit. It would also increase the benefit amount and provide payments monthly."

Biden’s $1.8 trillion American Families Plan, released earlier this year, would extend the tax credit for four years.

“In addition to making it easier for families to make ends meet, tax credits for working families have been shown to boost child academic and economic performance over time,” the White House said in a statement. “The American Families Plan will also extend the expanded health insurance tax credits in the American Rescue Plan. These credits are providing premium relief that is lowering health insurance costs by an average of $50 per person per month for nine million people, and will enable four million uninsured people to gain coverage.”

Critics, though, say Biden’s growing deficits, and printing money to pay for it will contribute to inflation. The most recent data from the Bureau of Labor Statistics found that inflation had risen 4.2% in the previous 12 months, a figure that alarmed many economists.

Republicans were quick to point to the report and push back against Biden’s proposed spending increases. They emphasized this point again on Thursday after releasing an infrastructure bill that costs less than half of Biden’s proposed plan.

“[The bill] also avoids the big threat to the economy, which is inflation,” said Sen. John Barrasso, R-Wyo. “We strongly recommend that President Biden endorses this proposal for the best interest of our nation.”

The child tax credit payments also raise questions around the economic impact, specifically if unemployed Americans receiving the payments will be less likely to return to work, increasing unemployment.

"In and of itself, making the full child tax credit payments available to families with no income probably won't have a large effect on employment, though it is likely to prevent at least some from returning to full employment," said Sean Higgins, an economic expert at the Competitive Enterprise Institute. "The concern regarding the tax credits is normalizing this practice of straight payments with no strings attached and Congress turning that into something that lawmakers try to build on with each successive budget. The Earned Income Tax Credit is an effective anti-poverty tool because it rewards people for working. That should be the model."

Another point of contention is that Biden's plan removed the work requirement for those receiving benefits.

"This would clearly have an add on effect [on inflation] but more significantly it would have a long term effect," said Robert Rector, an expert at the Heritage Foundation. "This is effectively restoring the pre-Bill Clinton welfare system. These are not tax credits for the most part. They are cash grants to people who don't owe tax. Eighty percent of it are just cash grants, but after 2025 its 100%."

Critics also argue the plan helps some families at a cost to the rest of the economy.

"Supporters of expanding refundable child tax credits and the EITC often claim such subsidies are a success because they reduce the number of households below the measured poverty line," Edwards said. "But that's a meaningless metric because if the government shovels billions of more dollars at lower income households, of course it will raise their incomes. It's more important to consider that such subsidies are funded by higher taxes that shrink the overall economy and overall U.S. incomes.

"Bigger government is no free lunch," he added.