



EXPLAINER

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Means Tests and Earnings Tests Make Family Benefits More Burdensome to Access and More Vulnerable to Future Cuts

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As Congress continues to negotiate provisions in President Biden's Build Back Better package, there have been calls to significantly scale back the measure. One component of the bill that is being debated is to limit some of the proposed social programs by implementing means and earnings tests. Means tests directly exclude otherwise eligible families because they don't have income or assets above a certain level. Earnings tests (also known as "work requirements") exclude otherwise eligible families because they don't have earnings from employment above a certain level. These tests don't just harm the families who fail them-- they also impose paperwork and other burdens that reduce the likelihood that families who meet the requirements are able to receive the benefits they're eligible for.

The Child Tax Credit

One key proposal policymakers are considering scaling back is the Child Tax Credit (CTC). The expanded tax credit increased the credit families may receive for children from \$2,000, to up to \$3,600 for children up to age 17. It also made these tax credits fully refundable, addressing a regressive tax code that previously excluded parents with low or no earnings from accessing the full tax credit due to lack of income. Prior to the expansion, there was an earnings floor requiring families to make at least \$2,500 to qualify to receive a refund. As a result, the majority of children in families in the bottom 30% of the income distribution were only able to claim a partial credit, and the majority of children in families in the bottom 10% of households were unable to claim the credit at all.¹

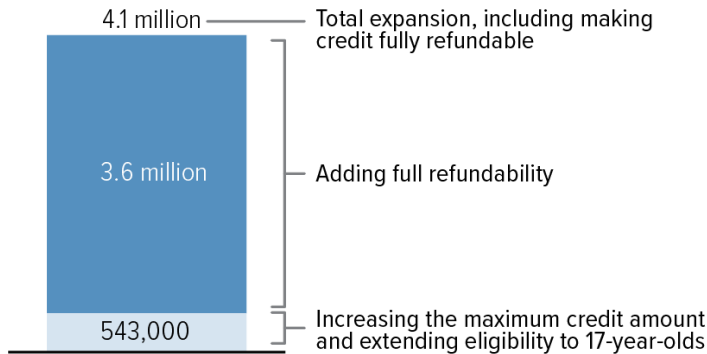
The [latest iteration](#) of the Child Tax Credit proposed by the House Ways and Means committee would extend the new CTC to 2025. It has been estimated that this expanded benefit will slash child poverty almost in half and save 4 million children from deep poverty. Importantly, it should be noted that [more than 80% of that reduction](#) in child poverty can be attributed to making the full credit available to families that have low or no income.

¹ Haider, A. & Hendricks, G. *Now Is the Time To Permanently Expand the Child Tax Credit and Earned Income Tax Credit*. May 2021.

<https://www.americanprogress.org/issues/poverty/reports/2021/05/21/499777/now-time-permanently-expand-child-tax-credit-earned-income-tax-credit/>

Full Refundability Drives Anti-Poverty Impact of Rescue Plan's Child Tax Credit Improvements

Number of children lifted above the poverty line



Note: Full refundability = Families with little or no income for the year can receive the full credit. Rescue Plan = 2021 American Rescue Plan Act. All estimates reflect a pre-pandemic economy, using tax year 2021 tax rules and incomes adjusted for inflation to 2021 dollars. Together with increasing the maximum credit amount to \$3,000 for children ages 6-17 and \$3,600 for children under age 6 and extending eligibility to 17-year-olds, we retain the \$2,500 earned income floor and 15% phase-in under pre-Rescue Plan policy and assume that the \$1,400 refundability cap is removed.

Source: CBPP analysis of March 2019 Current Population Survey

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Source: *Center on Budget and Policy Priorities*

Adding means-testing or work requirements to this benefit as has been [suggested](#), would mean a shift back to excluding the [nation's poorest families](#) from qualifying for the credit.

The expanded CTC is already “means-tested” to some extent. It starts phasing out at \$150,000 for married couples, \$115,000 for heads of households (mostly single parents) and \$75,000 for other single filers. Further means-testing to the CTC will make it more difficult to pay out as a monthly benefit and increase the likelihood that families experience benefit clawbacks when filing taxes due to changes in their earnings or filing status. Because one-earner single parent families already face a lower income ceiling than one-earner married couple families (\$115,000 vs. \$150,000), further lowering the ceiling would subject more single-parents to the CTC’s single-parent penalty.

Lowering the income ceiling for CTC and adding work requirements to exclude more families is a regressive policy that is as counterintuitive as it is misleading. It relies on the presumption that families on the opposite end of the spectrum-- those with little to no income--are not working as a matter of choice, [precluding a number of families](#) whose parents or guardians may be students or disabled and unable to work. In reality, more than 8 in 10 families who benefit from full refundability have a current or recent worker in the household.

Moreover, the CTC [already contains a work requirement](#) since recipients must be a parent or caregiver of a child to receive the credit. A properly designed child benefit should be based on the assumption that caring for a child is valuable and necessary labor that deserves to be

recognized, regardless of whether the parent is currently working outside of the home or married to someone with earnings. Raising children and ensuring they have a safe and supportive environment is work.

The United States is one of the few wealthy democracies in the world that does not provide help to families through policies like universal paid family leave, universal subsidized child care, or an inclusive child benefit. Congress can change this and help rebuild a strong economy by making investments in child care and families, absent unnecessary income or work requirements. While it remains unclear if any additional provisions of President Biden's Build Back Better package may be subject to means testing, the possible implementation of this mechanism for trimming costs sets a familiar tone that reinforces the perception of the "undeserving poor" and overlooks several issues with means testing that are discussed in greater detail below.

Benefit Cliffs and Exclusion

Changes in family structure or earnings can result in the loss of program eligibility for public benefit programs. While program ineligibility is typically associated with an increase in income, loss of income can also trigger a "benefit cliff" rendering a person or family ineligible for benefits. This is one of the fundamental flaws of means-testing, in that a modest increase in earnings can mean a total loss of a benefit. In this way, means-testing can present a precarious situation for would-be recipients who are subjected to arbitrary (and changeable) income thresholds. Means-testing is also encumbered with administrative burdens on both the recipient who has to submit documentation to prove eligibility and the administering entity that has to verify eligibility and maintain compliance. These bureaucratic hurdles can, in turn, deter would-be recipients from accessing the benefit, effectively excluding the very people who need help the most. Consequently, take-up rates by people eligible for targeted social welfare supports who actually receive them are lower than universal programs like Social Security, which sees nearly 100% of eligible beneficiaries participate in the program.² Eligible beneficiaries who participate in means-tested programs include: 75-85% for the Supplemental Nutrition Assistance Program (SNAP); 75-80% for Medicaid (non-CHIP); and 78% for the Earned Income Tax Credit (pre-expansion).³ The cost of facilitating means-tested programs is also expensive. For programs like SNAP, TANF, and WIC, administrative costs can range from [15 to 40 cents of each dollar of benefits](#) distributed in these programs. If the goal of policymakers is to cut back on spending, means-testing programs in the Build Back Better package is likely to chip away at the very savings that lawmakers are trying to secure.

Poverty Reduction

² Moynihan, D., Herd, P., & Harvey, H. *Administrative Burden: Learning, Psychological, and Compliance Costs in Citizen-State Interactions*. January 2015.

<https://academic.oup.com/jpart/article/25/1/43/885957?login=true>

³ Bruenig, M. *The Problems With Means-Testing Are Real*. September 2020.

<https://www.peoplespolicyproject.org/2020/09/24/the-problems-with-means-testing-are-real/>

Targeted designs like means testing can undermine the goal of reducing poverty. From an international purview, there is almost no evidence to demonstrate that countries that have implemented generous social welfare policies have experienced increased instances of unemployment or other occurrences often associated with poverty, like single parenthood, low education, and young headship.⁴ Despite decries from US policymakers about trimming provisions of the Build Back Better package to get Americans back to work, there is little evidence to suggest that increased access to social safety nets would disincentivize work. Targeted policies also provide little support to prevent further descent into poverty, only providing assistance after an individual has fallen into poverty, rather than investing in meeting people's basic needs as is the case with universal benefits. To provide more robust relief that helps build financial stability for families and children, Congress can focus on building upon universal programs like paid family and medical leave and high-quality child care and early education.

Race, Class, and Stigmatization

The false correlation between “working hard” and obtaining a level of financial success in America is a core tenet of decades of [racialized welfare policies](#) that have influenced the public perception on welfare. Decades of policies that excluded black families from receiving assistance [predate federal aid programs created in the New Deal](#). As more black families gained access to government assistance, calls for “personal responsibility” and public condemnation of “welfare dependency” became the backdrop for poverty-centered policies like the [1996 welfare reform law](#). Despite the fact that beneficiaries of welfare consist of both [white and non-white minorities](#), the perception of one racial demographic mostly benefitting has led to increased resentment towards these programs.

Relatedly, government assistance programs can also wedge a societal divide among class lines for programs that are restricted to low-income eligibility. Because of the stigmatization of means-tested programs carved out for low-income families, these programs can become less popular overtime and be subject to calls for budget cuts. Families receiving government assistance are also subjected to greater suspicion and monitoring, like continuous income verification requirements and drug tests, which can further deter applicants due to the sometimes demoralizing nature of surveillance tied to receiving benefits. Conversely, universal programs tend to have a broad coalition and thus enjoy better popularity and funding that is not subject to the same vulnerabilities given a change in Administration or political environment.

Conclusion

Adding a means-tested benefit to the Child Tax Credit or any other provision in the Build Back Better package undermines the goal of providing broad support to Americans and strengthening communities. Social investments that make people healthier and universal programs that

⁴ Brady, D., Finnigan, R., & Huebgen, S. *Rethinking the Risks of Poverty: A Framework for Analyzing Prevalences and Penalties*. December 2017.
<https://bradydave.files.wordpress.com/2017/12/bradyfinniganhuebgen2017.pdf>

facilitate employment can provide a baseline of security that enables people to keep working. Adding burdensome income or work requirements to a system designed to lift children out of poverty makes the program less efficient at accomplishing this goal. As the Biden Administration continues efforts to reach a reconciliation agreement, the Build Back Better package provides a historic opportunity to provide long-term economic investments in the people through robust universal benefits in children and families.