

# Counting Children Fully in Economic Impact Payments and Other Cash Assistance Policies Matters for Poverty Reduction

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Among the more prominent federal policy responses to the COVID-19 pandemic were Economic Impact Payments (EIPs): cash payments in 2020 and 2021 for flexible use made available to most households with incomes under \$150,000. There are several policy design issues to consider when creating EIPs, and these also apply to other forms of automatic stabilizers or direct cash payments to households, such as tax rebates, dividends to offset policies like Value Added Tax (VAT) or carbon taxes, income guarantees, and universal basic income programs. One critical aspect is how the structure of direct payments handles the benefit values assigned to adults compared to the benefit values assigned to children.

This brief examines the potential poverty reduction impacts of including versus not including children in the full benefit amount in direct cash payments. We use the 2021 \$1,400 per capita EIP as an illustrative example. Our goal is to assess whether and to what extent treating children as full recipients when administering EIPs and other direct payments makes a difference in reducing poverty among those who struggle the most to make ends meet and who are often particularly vulnerable in economic downturns.

## Key Points

- The multiple rounds of Economic Impact Payments (EIPs) delivered during the pandemic treated children differently: children were initially allocated substantially smaller benefits than adults, though they were later treated equally and received full per capita payments.
- In 2021, a \$1,400 per capita EIP that counted children as full people was delivered to families across the country. Had children not been eligible for these payments in full, the effect of a \$1,400 EIP on the poverty rate would have been greatly diminished.
- Policy design matters: counting children fully in cash payments has a significant impact on poverty reduction rates.

## BACKGROUND

Over the course of the pandemic, Congress approved three rounds of EIPs spanning two presidential administrations. Critically—and unlike similar policy responses to earlier recessions—the EIPs had no minimum earnings requirement and were fully refundable, meaning that people with little or no earnings and little or no federal income tax liability were eligible for the full payment. The first EIP, authorized in late March 2020 and delivered shortly thereafter, was structured in a way that children received smaller maximum payments than adults (\$500 per child versus \$1,200 per adult). As such, a parent with two children received a smaller total benefit (\$2,200) than a childless couple (\$2,400), despite the large expenses associated with caring for children, much of which were exacerbated when schools and child care centers closed. The second EIP, authorized in late December 2020, provided the same full benefit to children as adults—albeit, at \$600 per capita, at a lower overall level. The third EIP, authorized in March 2021, continued the approach of equal maximum benefit levels for children and adults and raised the full benefit to \$1,400 per capita.<sup>1</sup>

While EIPs are usually ‘one-off’ payments and not a continuous policy concern, policy issues around whether and how to account for children compared to adults in direct cash payments arise regularly at both the federal and state level. At the federal level, the issue arose in the Great Recession in 2008, when direct payments of \$300 per adult and \$300 for up to two children per household went out to families with earnings over \$3,000.<sup>2</sup> Numerous states used available surpluses from grants received through the 2021 American Rescue Plan to deliver additional assistance to households through one-time payments or tax rebates. Payment structures varied in terms of target recipients—some per household; some per adult; some per adult and child; and some for children only.<sup>3</sup>

Economists and policymakers also often call for the creation of ‘automatic stabilizers’, or policies that immediately respond to downturns in the economy without requiring legislative action. Many automatic stabilizer proposals include direct cash payments, or rebates, to households as part of this response, but these proposals have not historically always included children in the full benefit levels.<sup>4</sup> Calls for VATs, carbon taxes, or similar proposals, with cash rebates to offset their regressive nature, have also not always included children in the proposed full benefit amount.<sup>5</sup> Similarly, as guaranteed income and universal basic income proposals, pilots, and programs continue to gain momentum around the country, policy design has varied widely in terms of how children are recognized within their benefit structures.<sup>6</sup> Whether and how children are accounted for within cash assistance policies, as well as how these policies are financed, have meaningful implications for the degree to which these policies reduce child poverty.<sup>7</sup>

Our goal in this brief is to illustrate the impact of counting children as full beneficiaries in cash payments on poverty rates, using the design of the most recently delivered EIP as our policy example. Though the analysis in this brief is restricted to the EIP example, the findings have implications for the design and delivery of automatic stabilizers and other direct cash payment policies moving forward. Additionally, it is important to note that EIPs and similar policies of course serve objectives beyond poverty reduction, such as stimulating demand to boost the economy. In this way, too, cash payments that fully include children may be particularly impactful. Families with children who are living paycheck to paycheck are likely to spend their payments promptly to help meet their needs, thereby boosting the larger economy while also moving more children and families out of poverty.

## APPROACH

We use the third and final pandemic-era EIP as the basis for this analysis. The third round of EIP provided the same full benefits for both adults and children in income-eligible tax units: \$1,400 per capita (for income eligibility thresholds, [see Appendix A](#)). To understand how a per capita structure that fully recognizes children matters for poverty reduction, we show how these poverty rates would differ across hypothetical 2021 policy scenarios.

Specifically, we look at the impact of a \$1,400 EIP on poverty rates in 2021 under four hypothetical scenarios:

1. *Without EIPs*: No \$1,400 payment to anyone
2. *No EIPs for Children*: Accounting for payments of \$1,400 per adult only
3. *Half EIPs for Children*: Accounting for payments of \$1,400 per adult and \$700 per child
4. *Full EIPs for Children*: Accounting for payments of \$1,400 per capita.

We use data on incomes and poverty for calendar year 2021 in these analyses. The year 2021 was an extraordinary year when families received historic levels of income support that reduced child poverty rates to their lowest level on record.<sup>8</sup> These record lows were the result of several government actions, but most notable among them was the expansion of the Child Tax Credit.<sup>9</sup> Given that our goal was to understand the effects of fully counting children in payments like the EIPs in a more standard policy environment, however, in all scenarios we use a baseline child poverty rate that *does not* count the full 2021 Child Tax Credit. Specifically, with respect to the treatment of the Child Tax Credit in family resources in the Table 1 results, we apply only the version of the credit available according to the parameters of the Tax Cuts and Jobs Act of 2017. As such, the results presented in this brief illustrate the potential impacts of payments like the \$1,400 EIP in a more typical year rather than the actual impacts of those payments in 2021. Results where we compare against a baseline that *does* include the full 2021 Child Tax Credit are provided in Appendix B and do not substantially impact the underlying findings.

## RESULTS

Table 1 shows the effects of different EIP structures on the poverty rate of the total population and of children. In our adjusted 2021 scenario (with a non-expanded Child Tax Credit), our baseline Supplemental Poverty Measure (SPM) poverty rate *before* counting any resources from EIPs was 12.0% for the total population and 12.4% for children.<sup>1</sup>

**Table 1. Anti-poverty effects of a \$1,400 Economic Impact Payment under four hypothetical policy scenarios**

SPM Poverty rate	Total Population		Children	
	Poverty rate	Percent decrease	Poverty rate	Percent decrease
<b>1. Without EIPs</b>	12.0%	–	12.4%	–
<b>2. No EIPs for Children</b> <i>(\$1,400 per adult)</i>	9.9%	17.3%	10.6%	14.7%
<b>3. Half EIPs for Children</b> <i>(\$1,400 per adult, \$700 per child)</i>	9.4%	22.0%	9.3%	25.2%
<b>4. Full EIPs for Children</b> <i>(\$1,400 per capita, regardless of age)</i>	8.9%	26.1%	8.0%	35.4%

The impacts of an EIP payment structure that counts children fully versus not counting them can be seen in the child poverty rates in the last two columns of Table 1. When children are valued equally to adults, child poverty drops by more than one-third (35.4%), from a rate of 12.4% down to 8.0%. If children are not counted or only partially included, the effect of EIP on poverty reduction is greatly reduced. In the absence of any payments for children, the child poverty rate decreases by only about one-seventh (14.7%).

Fully accounting for children in cash payments also matters for poverty rates among the total population. An EIP payment structure that counts children fully sees overall poverty decline from 12.0% to 8.9%, just over a one-quarter (26.1%) reduction. When children are counted at only half the level as adults, or if they are not counted whatsoever, poverty reductions are smaller. For example, when children are not counted at all, the overall poverty rate falls by only about one-sixth (17.3%).

<sup>1</sup> This baseline is similar to the 2019 pre-pandemic SPM poverty rates of 11.8% for the total population and 12.6% for children; see Fox, Liana and Kalee Burns (2020) [The Supplemental Poverty Measure: 2020](#). Washington DC: Census Bureau.

## Conclusion

Counting children fully when designing cash payment policies yields larger reductions in overall and child poverty than cash policy designs that consider children only partly or not at all. This point is, of course, to some degree self-evident as directing more money – rather than less – to households will always lead to greater poverty reduction. But cash assistance policies such as EIPs, tax rebates, dividends for carbon taxes or VATS, guaranteed income pilots, and others often target individuals rather than households, and, historically, have tended to focus more specifically on adults. In recessionary periods in particular, cash payments are often thought of as economic relief for workers, obscuring the fact that individuals reside in families and households of different sizes and needs. Moreover, child poverty rates are often higher than overall or working-age adult poverty rates, and policies that move the needle on overall poverty rates may not always have the same effect for children. By illustrating the importance of counting children fully, these results provide evidence to support a comprehensive accounting for family and child-related needs when designing and delivering cash payments in the future.

## Suggested Citation

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## Appendix A. Methodology

The estimates presented in this policy brief are based on data from the 2022 Annual Social and Economic Supplement to the Current Population Survey (CPS-ASEC), which provides the necessary information to calculate poverty rates using Supplemental Poverty Measure (SPM). Data were obtained from the University of Minnesota's Integrated Public Use Microdata Series (IPUMs).<sup>10</sup> To estimate the amount of the Economic Impact Payments (EIP), we follow the parameters of the American Rescue Plan Act of 2021 for EIP 3 and adjust it within the analysis to account for whether we are looking at the full amount provided to children, a half-amount provided for children, or no amount provided to children (i.e. adults only).

Our analytic steps include:

- I. Estimating the value of EIP 3 for families in the data according to the following parameters:
  - A. The EIP provided a maximum of \$1,400 per adult and \$1,400 per qualifying dependent.
  - B. Families with adjusted gross incomes (AGI) below set thresholds were eligible for the full EIP. These thresholds varied by tax-filing status: \$75,000 for single filers, \$112,500 for head of household filers, and \$150,000 for joint filers.
  - C. Above these thresholds, the EIP phased out at different rates depending on their filing status. The families were not eligible for the payment when their AGI exceeded \$80,000 for single filers, \$120,000 for head of household filers, and \$160,000 for joint filers.
- II. Simulating alternative EIP scenarios by maintaining all of these parameters but varying the payment amount for children, with the alternatives being \$700 for each qualifying dependent or no payment for qualifying dependents.

All the estimated and simulated EIPs were aggregated at the SPM unit level. We estimate the poverty status of each SPM unit by comparing their total SPM resources, subtracting the estimated EIP 3, and adding each version of simulated combined EIPs to their SPM threshold. In all scenarios, we calculate the poverty rate based on an individual's poverty status without considering the resources from the expanded portion of the 2021 American Rescue Plan Child Tax Credit; rather, all estimates are produced with a Child Tax Credit according to 2017 Tax Cuts and Jobs Act parameters only.

## Appendix B. Supplemental Results

**Table B1. Anti-poverty effects of a \$1,400 Economic Impact Payment under four hypothetical policy scenarios (after counting the full 2021 Child Tax Credit)**

<i>SPM Poverty rate</i>	Total Population		Children	
	Poverty rate	Percent decrease	Poverty rate	Percent decrease
1. <b>Without EIPs</b>	10.4%	–	8.3%	–
2. <b>No EIPs for Children</b> <i>(\$1,400 per adult)</i>	8.5%	15.6%	6.7%	11.3%
3. <b>Half EIPs for Children</b> <i>(\$1,400 per adult, \$700 per child)</i>	8.1%	18.4%	6.0%	16.5%
4. <b>Full EIPs for Children</b> <i>(\$1,400 per capita, regardless of age)</i>	7.7%	21.3%	5.2%	22.2%

Source: Authors' analysis using data from the 2022 CPS-ASEC, retrieved from IPUMS-CPS, University of Minnesota (ipums.org). Note: Poverty rate calculated using individual-level poverty status. All estimates produced count income from the 2021 American Rescue Plan version of the Child Tax Credit in the tabulation of family resources, which expanded eligibility and increased maximum credit values for families with low and moderate incomes before phasing down to a lower credit value (equal to the prior maximum credit value under the 2017 Tax Cuts and Jobs Act) and eventually phasing out entirely for high income families.<sup>11</sup>



## Endnotes

1. EIP 1 was enacted as part of the Coronavirus Aid, Relief, and Economic Security Act, [Public Law No. 116-136](#), March 27, 2020. EIP 2 was enacted as part of the Consolidated Appropriations Act, 2021, [Public Law No. 116-260, Dec 27, 2020](#). EIP 3 was enacted as part of The American Rescue Plan Act, [Public Law No. 117-2](#), March 11, 2021.
2. The Economic Stimulus Act of 2008. [Public Law No. 110-185. February 13, 2008](#).
3. Internal Revenue Service. 2023. [State Payments](#). Washington DC.
4. Sahm, Claudia. 2019. Chapter 3: Direct stimulus payments to individuals, in [Recession Ready: Fiscal Policies to Stabilize the American Economy](#). Washington DC: Brookings, pp 67-92.
5. Marron, Donald and Elaine Maag. 2018. [How to Design Carbon Dividends](#). Washington DC: Tax Policy Center.
6. See, for example, pilot programs cataloged within the Economic Security Project Guaranteed Income Community of Practice at <https://gicp.info/>; National League of Cities guide to basic income and other cash transfer programs in cities at <https://www.nlc.org/resource/universal-basic-income-whos-piloting-it/>; and more.
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