



EXTENDED SUMMARY

The Child Tax Credit in Puerto Rico

Impacts on Poverty and the Lives of Families

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The CTC within the Context of Puerto Rico

Many families of Puerto Rico live in dire situations. The overall poverty rate is 44%, while the child poverty rate sits at 57%.¹ This percentage of children and youth living in poverty is more than double that of Mississippi, the poorest state, and almost double that of Native American children, the racial/ethnic group with the highest poverty rate in the United States.

The urgency of the situation is evident in people's daily lives. In Puerto Rico, 28% of households have no Internet connection, compared to 11% in the United States. Food insecurity is experienced by one in every three adults.² Fifteen percent (15%) of the population reports being in poor physical health 14 or more days every year, compared to 10% of the population of the United States.³

Moreover, the series of weather events and health emergencies that Puerto Rico has endured continues to hinder families from gaining stability. Hurricane María in 2017, the earthquakes that occurred in the southwestern region of the island at the beginning of 2020, the COVID-19 pandemic, and Hurricane Fiona in 2022 have intensified poverty in Puerto Rico.⁴ A study on the effects of Hurricane María showed that eight out of 10 households with children suffered losses, which were more significant among families with incomes under \$15,000.⁵ In response to Hurricane María, FEMA disbursed families \$1.5 billion in economic relief.⁶ During the disaster declaration following the earthquakes, almost 41,000 families applied for FEMA aid.⁷ With Hurricane Fiona, which made landfall in Puerto Rico on September 18, 2022, the number of new unemployment insurance claims reached 5,052 in the first week of October, the highest since July 2021.⁸ Data on aid applications was not

available at the time of publication.

It has been documented⁹ that during these events, children bear the overwhelming burdens of abuse, mental health issues, food insecurity, and a decline in academic achievement.

Against this backdrop, the Child Tax Credit (CTC), which was expanded by the American Rescue Plan Act (ARPA) in March 2021, came as a breath of fresh air and a unique opportunity to improve the economic conditions of hundreds of thousands of families with children in Puerto Rico.

In 2021, the CTC awarded \$3,000 per child aged 6 to 17 and \$3,600 per child aged five and under. It is estimated that 305,000 families in Puerto Rico could have been eligible for the CTC. Considering the high income limits and that no income from employment was required, the CTC practically applied universally to families with children across the archipelago of Puerto Rico.

Concurrent with the CTC that was put into place under ARPA, the federal government made up to \$600 million available annually to the local government to strengthen the Earned Income Tax Credit (EITC), which made work pay for families that earn low salaries in the labor market.

Studies in the United States have demonstrated the potential tax credit policies have for cutting child poverty and opening a path toward families' economic mobility and security. The EITC and the CTC are part of the social and economic protection system for families, and these two policies are the ones that have the greatest potential for reducing child poverty.¹⁰ Recent studies show that the

1 Data from the 2019 Puerto Rico Community Survey.

2 Maribel Santiago Torres et al., "Seguridad Alimentaria en Puerto Rico" [Food Security in Puerto Rico], Instituto de Estadísticas de Puerto Rico, 2015, <https://estadisticas.pr/en/media/326>

3 "BRFSS Prevalence & Trends Data", Centers for Disease Control and Prevention, 2021. <https://www.cdc.gov/brfss/brfssprevalence/index.html>

4 Sandra Caquías Cruz, "Fiona aflora la pobreza" [Fiona Intensifies Poverty], Es Noticia Journal, October 7–20, 2022.

5 Anitza M. Cox, Impactos del huracán María en la niñez de Puerto Rico [Hurricane María's Impact on Puerto Rico's Children]. (San Juan: Instituto del Desarrollo de la Juventud, 2019).


6 FEMA. DR-4339 Hurricane María by the Numbers (November 2, 2021). <https://www.fema.gov/fact-sheet/hurricane-maria-numbers>.

7 FEMA. Federal Disaster Assistance for Puerto Rico Earthquakes Tops \$104 Million (July 15, 2020), <https://www.fema.gov/news-release/20200716/federal-disaster-assistance-puerto-rico-earthquakes-tops-104-million>

8 Data from U.S. Department of Labor, Employment and Training Administration (ETA), Unemployment Insurance Weekly Claims Data. <https://oui.doleta.gov/unemploy/claims.as>

9 María E. Enchautegui Román, et. al. "Impactos del huracán María en niños y adolescentes y la respuesta público-privada" [Hurricane María's Impact on Children and Youth and the Public-Private Response]. Instituto del Desarrollo de la Juventud, 2018; Rosaura Orengo-Aguayo et al. "Disaster Exposure and Mental Health among Puerto Rican Youths after Hurricane María," JAMA Network Open (April 2019): [doi:10.1001/jamanetworkopen.2019.2619](https://doi.org/10.1001/jamanetworkopen.2019.2619)

10 National Academies of Sciences, Engineering, and Medicine. A Roadmap to Reducing Child Poverty. (Washington, DC: The National Academies Press, 2019): [doi: https://doi.org/10.17226/25246](https://doi.org/10.17226/25246); Arloc Sherman and Danilo Tresí. "Safety Net More Effective Against Poverty Than Previously Thought: Correcting for Underreporting of Benefits Reveals Stronger Reductions in Poverty and Deep Poverty in All States" (Washington, DC: Center for Budget and Policy Priorities, 2015): <https://www.cbpp.org/research/poverty-and-inequality/safety-net-more-effective-against-poverty-than-previously-thought>



The child poverty rate 57%

expanded CTC under ARPA reduced child poverty in the United States by almost half.¹¹

It has been a challenge to ensure that all families in Puerto Rico that are eligible for 2021 expanded CTC receive the benefit. Puerto Rico's taxpayers generally do not file federal tax returns and are, therefore, unfamiliar with the process. Furthermore, a significant percentage of the population is not fluent in English, and many do not have the necessary resources to file a federal tax return. Lastly, the changes made to eligibility requirements may have created confusion since, before ARPA, only families that were employed and who had three or more children were eligible.

This report compiles a variety of data that reveal the impact and significance of the CTC in the lives of families, and it presents public policy recommendations for how this credit is applied in Puerto Rico. This report also presents numerical simulations, created using data from the 2019 Puerto Rico Community Survey, and analyses of the results of a CTC Survey in which 400 families participated and of the content of six focus groups in which a total of forty-five people participated. The report also includes observations made at free service centers organized by government and by nonprofits, as well as IRS data on the number of applicants per ZIP code and applications that were referred to the Taxpayer Protection Program (TPP).

¹¹ Leah Hamilton et al. "The Impacts of the 2021 Expanded Child Tax Credit on Family Employment, Nutrition, and Financial Well-Being: Findings from the Social Policy Institute's Child Tax Credit Panel (Wave 2)," Global Economy and Development at Brookings (Washington DC: Brookings, 2022): https://www.brookings.edu/wp-content/uploads/2022/04/Child-Tax-Credit-Report-Final_Updated.pdf; U.S. Census Bureau. The Impact of the 2021 Expanded Child Tax Credit on Child Poverty. (November 22 2022) <https://www.census.gov/library/working-papers/2022/demo/SEHSD-wp2022-24.html>

The Story the Data Tell

The CTC is a game-changing credit that ushered in a never-before-seen reduction in Puerto Rico's child poverty rates. Poverty rates were adjusted to include the CTC and the EITC, and the facts that in 2019 CTC was limited to families with three or more children and a reduced EITC was also in place were also factored in. Simulations show that the CTC in effect in 2021 could reduce the adjusted child poverty rate from 55% to 39%. Combined, the expanded CTC and EITC can potentially reduce this rate to 34%.

The data analyzed indicate the CTC under ARPA brought peace of mind to hundreds of thousands of families in Puerto Rico who divided the use of these funds among savings, debt payments, and miscellaneous purposes. Families were able to use the credit to cover major expenses, such as purchasing a car for an older child to drive to their college or university or buying furniture for children's rooms. For other families, the CTC provided basic needs such as improved nutrition, food security, and new clothes and shoes for their children.

However, as late as May 2022, many families had not yet received their credit. Families faced language barriers, difficulties verifying their identities, and problems related to identity theft. The IRS poorly anticipated the great need faced by Puerto Rico's families which made matters worse. Access to the CTC was also hindered because tools were not adequate or were not available at the start of the tax filing season.

The collaboration between nonprofits, the private sector, and the government was key in channeling and solving implementation issues. These collaborations expanded community education and access to free services throughout Puerto Rico to help more families gain access to the credit.

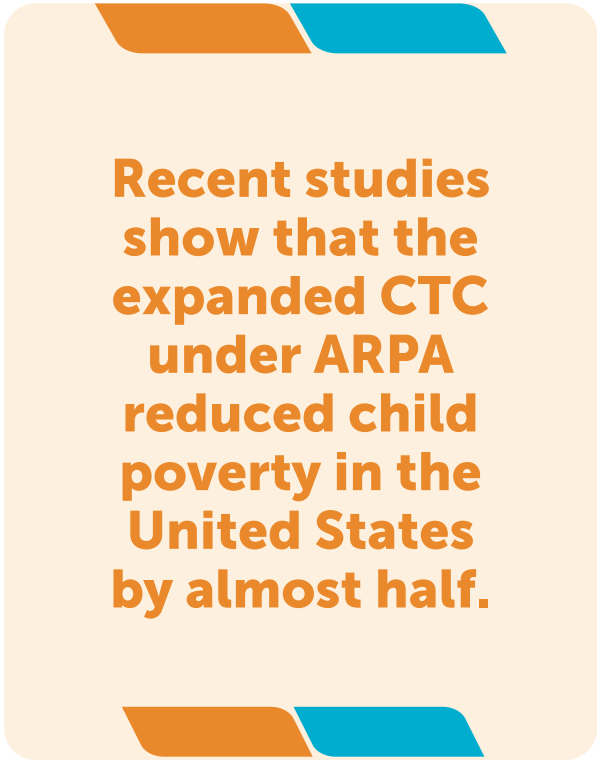
With the expiration of ARPA, CTC eligibility and amounts changed. While families in Puerto Rico with one or more children will continue to be eligible for the CTC, the credit amount will have a maximum of \$1,400 per child which could go up to \$1,500 with an adjustment for inflation, and the employment requirement will be reinstated

according to the law in effect before ARPA.

More than 80,000 families will no longer be eligible compared to 2021 rules, which will leave out 161,000 children currently covered. Under the 2022 CTC, the adjusted poverty rate would be reduced by only one percentage point compared to the base year, and with CTC and EITC, it would be reduced by six percentage points, from 55% to 49%.

Even if the new CTC rules are implemented, the current CTC and EITC combined would still lead to reductions in child poverty, but this impact would be limited due to the high percentage of families with children with not working householder.

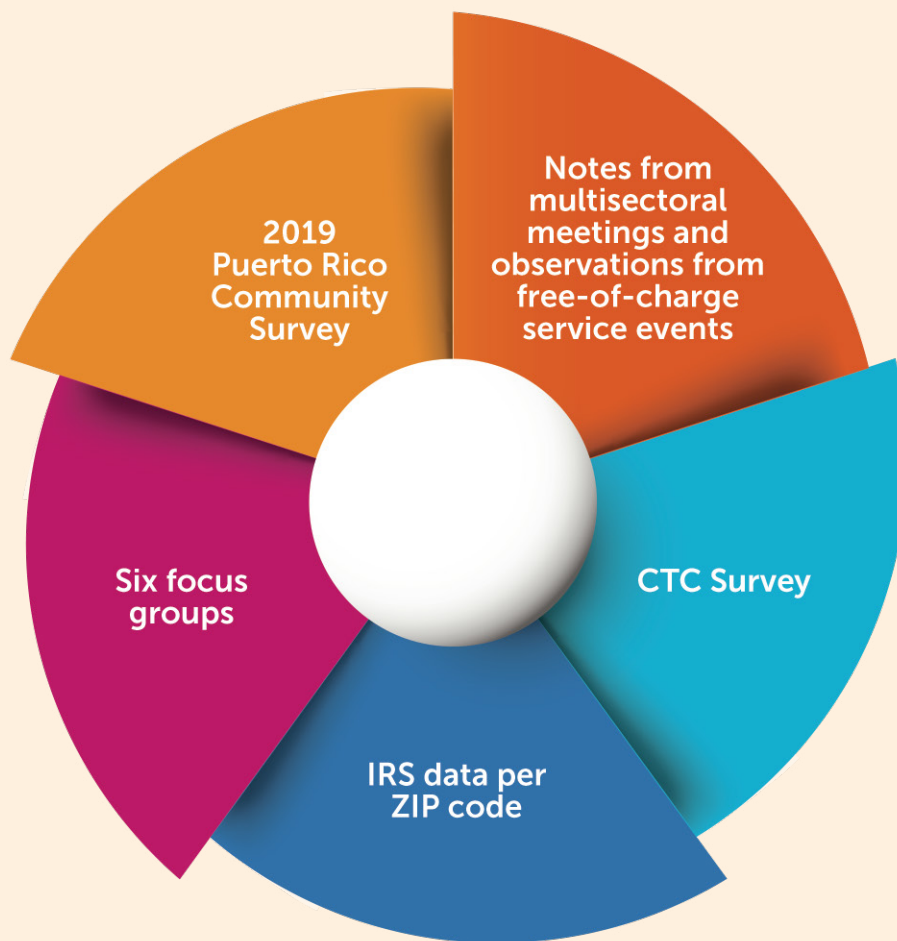
Under the new rules, joining the workforce would be key to unlocking CTC and EITC benefits.



Recent studies show that the expanded CTC under ARPA reduced child poverty in the United States by almost half.



Data Sources for Assessing the Impact of the CTC in Puerto Rico



Data Sources

Five data sources were used to assess the impacts of CTC. These data sources combined present a broad view of the impact of the CTC in Puerto Rico, including families' experiences when filing for the credit and its implementation issues.

Potential Impacts of the CTC

This section presents estimates for the possible impact of the CTC on poverty and median income, using the CTC rules that were in place in 2021 and 2022. This section also presents simulations of the impact of the CTC combined with the EITC. Incomes for 2019 and the CTC and EITC rules in effect in 2019 were used as the baseline. The simulations employ the public use microdata samples (PUMS) used in the 2019 PRCS and from the University of Minnesota's IPUMS USA.¹²

To simulate poverty rates with the CTC, data at the individual level from the 2019 Puerto Rico Community Survey (PRCS) were used; these were the latest data available when the study was conducted.¹³ Since the data used is from 2019, it was assumed that families' incomes did not change significantly between 2019 and 2021, especially when considering inflation. Poverty rates were projected with the assumption that incomes stayed the same as they were in 2019, and the CTC rules for

2019, 2021, and 2022 were applied.

CTC and EITC amounts are not included in families' incomes report to the Census or to the PRCS. Poverty rates that consider CTC and EITC benefits are referred to as "adjusted poverty rates" in this report. Poverty rates, incomes, and the number of eligible people receiving the CTC and EITC in 2021 and 2022 were compared with the same data for 2019, using the CTC and EITC that were in effect in 2019.

The impact presented in this report is an estimate and is based on simulations, since whether a family actually received either the CTC or the EITC and how much it received cannot be determined from PRCS data.

Puerto Rico started a new EITC in 2019 after eliminating the one that was in effect from 2007 to 2013. In 2019, families could receive up to \$2,000, depending on their income and number of dependents. Only families with three or more children that received income from employment could receive the CTC.

As is the case with other tax refunds, neither the CTC nor the EITC are included in the income reported in the PRCS. Therefore, it was necessary to simulate the amount people would have received based on the eligibility rules and according to the number of children, their ages, and the household income. These simulated amounts were added to the household income, and the result was used to compute adjusted poverty rates (that is, poverty rates that include the CTC/EITC as income).

¹² Steven Ruggles, et al. IPUMS USA-Puerto Rico: Version 12.0 [PRCS 2019]. Minneapolis, MN: IPUMS, 2019. <https://doi.org/10.18128/D010.V12.0>.

¹³ The Census did not publish 2020 data for Puerto Rico, and 2021 microdata were not available at the time of publication.

Table 1 Number of Families and Children According to 2021 CTC Eligibility*				
	Families	Children ages 17 and under	Children ages 5 and under	Children ages 6 to 17
Not eligible	3,436	6,554	1,485	5,069
Eligible	305,185	566,234	140,868	425,366
Total	308,621	572,788	142,353	430,435

*Based on data from the 2019 Puerto Rico Community Survey. Steven Ruggles, Sarah Flood, Ronald Goeken, Megan Schouweiler, and Matthew Sobek. IPUMS USA-Puerto Rico: Version 12.0 [PRCS 2019]. Minneapolis, MN: IPUMS, 2019. <https://doi.org/10.18128/D010.V12.0>.

The adjusted poverty rates were calculated using the income thresholds of 2019 reported by the Census. For example, in 2019, a family of three—including two children—must have had \$20,598¹⁴ to Impacts are potential since: (1) the PRCS's income and family composition information used to compute the CTC and EITC do not necessarily re-create the tax unit that is reported when filing for the credits, which means that there is no way to know for sure if the computed credit amounts are the amounts the family actually could have received, and (2) it is not known for certain whether the households actually applied for the credits, nor whether they received them.

Some of the calculations estimate the potential impact under two scenarios: if 100% of those eligible receive the benefit and if 80% do. The 80% mark was chosen as a reasonable second scenario since, according to data from the CTC Survey, by mid-May 2022, 75% had applied for the CTC. The campaign to file for the CTC continued beyond May, and it is possible that this percentage may have increased. IRS data for August 2022 suggest an application rate of 76%.

Eligible children and families under CTC 2021 Rules

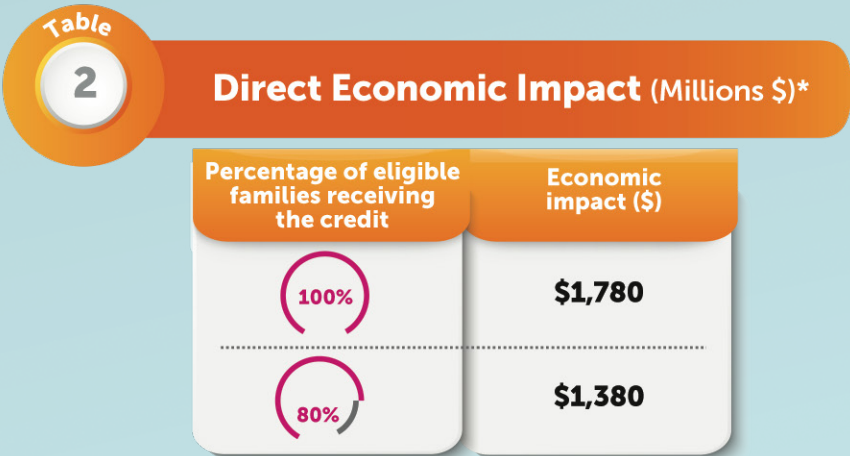
With the CTC under ARPA, most families with children in Puerto Rico were eligible for the credit. **Table 1** shows the number of eligible families and children. According to data from the 2019 PRCS, approximately 305,000 families with children in Puerto Rico were eligible to receive the

CTC under the 2021 rules. This means that 99% of these families could receive up to a maximum of \$3,600 per child age 5 and under and up to \$3,000 per child age 6 to 17. Approximately 566,000 children—out of a population of 572,000—were eligible for the CTC under 2021 rules. We estimate that 75% of these children (425,000) are over 5 years old. These numbers show that the 2021 CTC benefit practically applied universally to families with children and youth.

Direct Economic Impact CTC 2021 Rules

Considering income, number of children, and children's ages, it is estimated that eligible families would receive, on average, \$4,973 from the CTC. The potential direct economic impact of the CTC in Puerto Rico was also calculated based on two scenarios for the percentage of families that actually received the benefit. This information is shown in **Table 2**. If 100% of eligible families received the benefit, \$1.78 billion would be injected into the economy. If 80% of eligible families received the benefit, the potential impact on the economy would be \$1.38 billion.

14 United States Census Bureau Poverty Thresholds. <https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-thresholds.html>



*Refers to potential impact.



Eligible children and families CTC 2022 Rules

The number of eligible families and children eligible are shown in **Table 2**. An estimated 225,000 families will be eligible to receive the CTC under the 2022 rules. This figure represents 77% of all families with children up to age 16. Likewise, 76% of children ages 16 and under are eligible in 2022. Compared to the 2021 tax year, 80,000 families and 161,000 children and youth will no longer benefit from the CTC.

The decrease in the number of eligible families is due to two factors. First, the reincorporation of the requirement for income from employment excludes families with children that benefited in 2021 but did not work for pay. Second, families who only have dependent children age 17 are excluded and do not qualify for the benefit.

Direct Economic Impact CTC 2022 Rules

Simulating the 2022 CTC rules, eligible families would receive an average of \$1,787. This average was calculated under the assumption that 100% of eligible families file for the benefit. The total economic impact of the 2022 CTC is shown in **Table 4** and was calculated according to two scenarios: one where 100% of eligible families receive the CTC and another where only 80% of families receive it. Supposing all eligible families receive the CTC, this represents a direct injection of \$402 million into the economy. Compared to the 2021 CTC, that is a decrease of \$1.36 billion. When randomly simulating that 80% of these families receive the CTC, the direct economic impact is \$368 million.

Table

3

Number of Families and Children Eligible to Receive the 2022 CTC

	Families with children ages 16 and under	%	Children's ages 0–16	%
Not eligible	65,476	23%	127,819	24%
Eligible	224,892	77%	405,114	76%
Total	290,368	100%	532,933	100%

Note: Calculations based on data from the 2019 PRCS: Steven Ruggles, Sarah Flood, Ronald Goeken, Megan Schouweiler, and Matthew Sobek. IPUMS USA-Puerto Rico: Version 12.0 [dataset]. Minneapolis, MN: IPUMS, 2019. <https://doi.org/10.18128/D010.V12.0>.

Table

4

Direct Economic Impact of the 2022 CTC (in millions of dollars)



Scenario of families who receive the CTC	Direct economic impact
 If 100% of eligible families receive the 2022 CTC	\$402
 If 80% of eligible families receive the 2022 CTC	\$368

Figure 2

Adjusted Child Poverty Rates across Different CTC-Only Rules

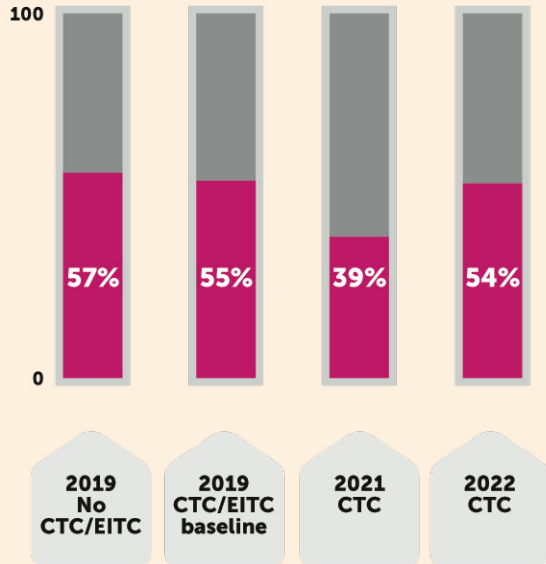


Figure 3

Adjusted Child Poverty Rates across Different CTC-EITC Rules

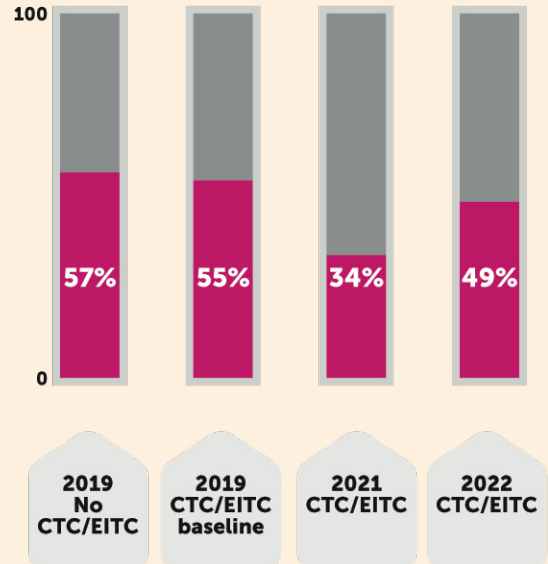


Figure 4

Median Income across Different CTC-only Rules

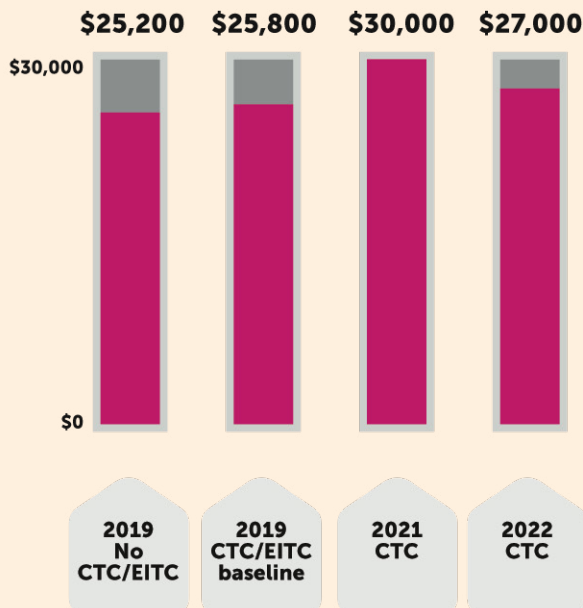


Figure 5

Median Income, Combined CTC/EITC, Different CTC/EITC Rules

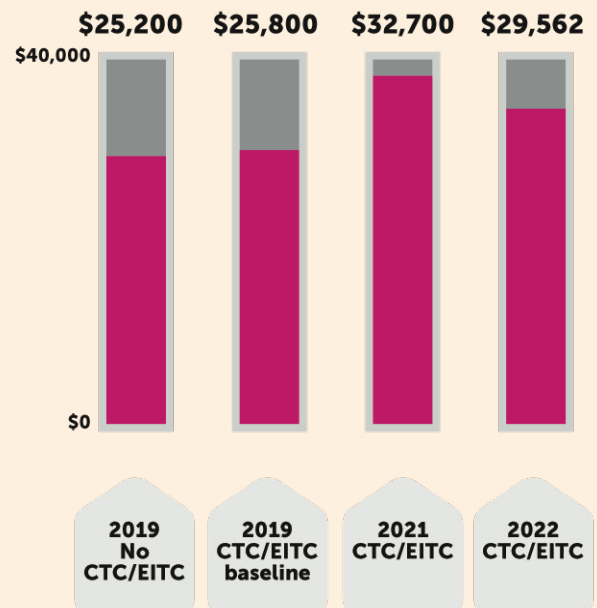
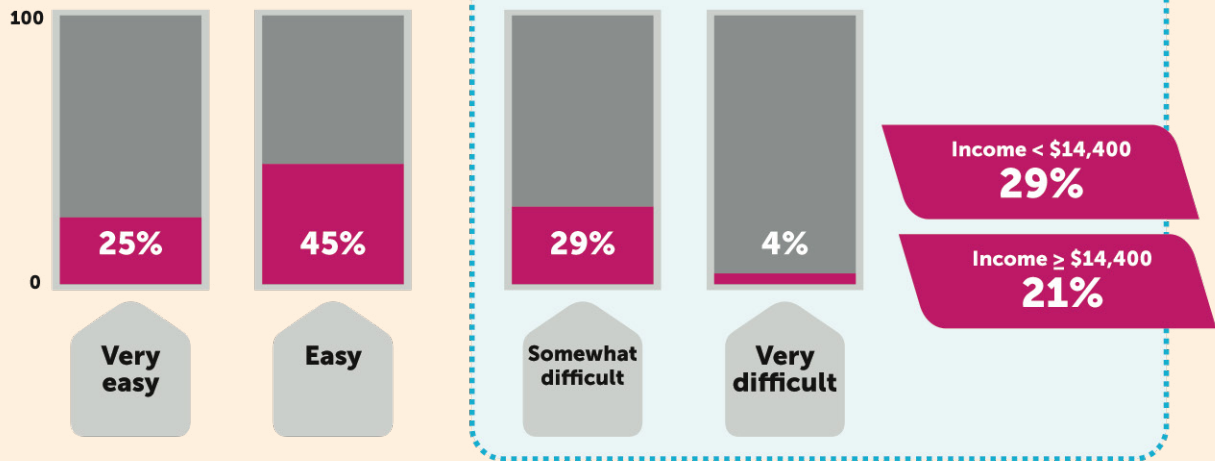


Figure 6

Participants' Perceptions of the Complexity of the CTC Claim Process (%)



Impacts on income and poverty

Figures 2 through 5 present a summary of the potential effects of the CTC and EITC. The 2021 CTC achieved an unprecedented decrease in the adjusted child poverty rate in Puerto Rico, reducing the adjusted poverty rate from 55% to 39%. This is the reduction in poverty if everyone eligible files for and receives the CTC. The reduction in extreme poverty was even greater. But after the expiration of ARPA, the child poverty rate increased again, being only one percentage point lower than the rate if CTC rules were similar to those in 2019. The 2021 CTC lifted 47,000 families with children out of poverty. The combination of the CTC and EITC in 2021 lifted 64,000 families with children out of poverty. The economic improvement of these families was much greater since extreme poverty was cut down by more than half.

If 2022 rules are applied, both the CTC and the expanded

EITC could still reduce child poverty by 6 percentage points with respect to the base year, but the poverty rate according to 2022 rules is still greater than the rate according to 2021 rules.

The average family with children received fewer benefits with the 2022 CTC than with the 2021 CTC, but even the more limited 2022 CTC increases incomes when compared to the 2019 CTC.

Even if the new CTC rules are put into effect, the current CTC and EITC combined would still be a good recipe for reducing child poverty, but their impact would be limited due to the high percentage of families without work income. Under the new 2022 rules, joining the workforce would be key to unlocking CTC and EITC benefits.

Figure

7

Reasons for Not Claiming the CTC



4%

I did not have transportation or money to file the return



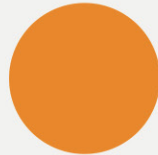
4%

Another relative of the minor claimed it without my consent



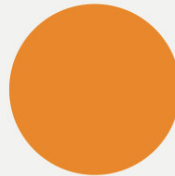
4%

I will claim it later



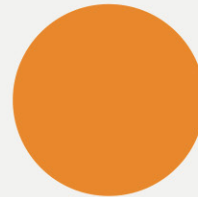
6%

I thought I didn't qualify because I didn't work, I had no income from work in 2021



8%

I did not know where to go to file



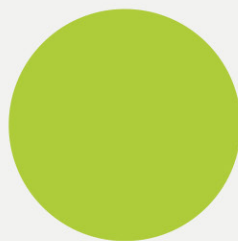
10%

I did not know about this CTC credit



10%

I thought my income was high



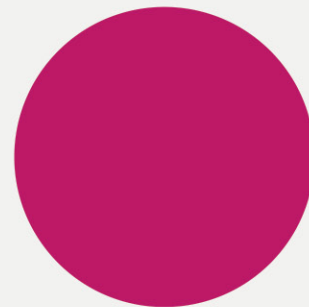
14%

I didn't understand the process



16%

Another reason



24%

I agreed with the father, mother or another relative that they were going to claim it

CTC Survey Findings

In mid-May 2022, IDJ conducted an online survey of families with children. The sample size was 400 participants ages 18 to 60 who were eligible for the CTC. In general, the survey reproduces well the sample of the PRCS, except for age, since the survey participants skew younger. Comparisons by education level or income are presented when statistically significant.

Difficulty of the claiming process and reasons for not applying

The claim process was somewhat difficult or very difficult for 31% of eligible families. Families with low incomes reported greater difficulty in navigating the process. Among people with low incomes, 29% found it somewhat difficult or very difficult, while only 21% of people with high incomes reported such difficulty.

One type of reason participants did not claim the CTC stands out: a lack of awareness of or confusion about eligibility rules and not knowing where to file the federal tax return. As shown in **Figure 6**, 38% of eligible families who did not file did so because they were unaware of the rules, did not know where to file, or did not understand the process.

The survey also showed that 24% of those who did not file did so because they had agreed that another relative would file the claim. This person could be a non-custodial parent, a shared-custody parent, or another relative who they decided should claim the credit. It is unknown whether those who filed the claim for the child transferred the money to the child's guardian. It is also up for investigation whether this type of arrangement could lead to identity theft problems or to a need for verifying participants' identities.

Identity verification

Figure 7 indicates how common it was for claimants to go through identity verification processes. More than half the families who claimed the credit received an identity verification letter. The frequency of this process was also documented in focus groups, in observations collected at free-of charge service centers and with IRS data.

It seems that having a college education helps in reducing the chances of identity verification. Perhaps the college educated are better informed about how to prevent identity theft or have previously filed a tax return, making them more familiar with the process. Among people with college degrees, 46% received an identity verification letter, compared to 63% of those without college degrees.

Impacts on People's lives and on pathways to economic mobility

The CTC has transformative potential. The survey examined how the CTC impacted the lives of families (**Figure 8**), asking participants to pick a maximum of two choices. The CTC brought peace of mind to 43% of families because it alleviated various needs. The CTC also helped resolve cases of persistent food needs in 27% of families, such as being able to purchase higher-quality groceries and running out of food throughout the month.

CTC benefits may be used for whatever families wish. Survey participants were asked about how they had used or planned to use the money, depending on whether they had already received it or not. Contrary to the conspicuous consumption narrative surrounding government benefits, families used CTC benefits in a balanced way: 35% paid debts, 26% put it toward savings, and 38% used it for miscellaneous purposes (**Figure 9**). Moreover, people without a college education were more likely to use the money for miscellaneous purposes (48% vs. 28%), demonstrating the limitations in daily expenses that these families may be facing.

38%

of eligible families who did not file did so because they were unaware of the rules, did not know where to file, or did not understand the process

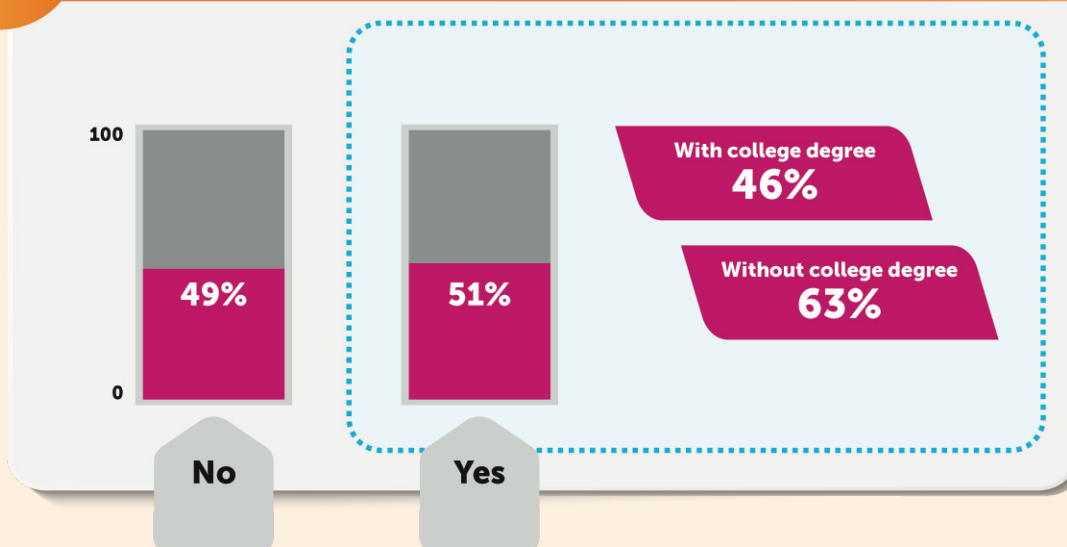
Preference for annual payments

In the United States, families had the option of receiving the CTC via monthly installments. However, this option was not available to Puerto Rico. The survey shows a preference for lump sum disbursements. **Figure 10** shows that more than half prefers this payment method. The preference for lump sum disbursements is stronger among families with low incomes: 75% of eligible low-income families prefers lump sum payments versus 65% of high-income families. The section on focus group findings that follows provides a broader perspective on payment preferences.

Figure

8

Participants Who Received an IRS Identity Verification Letter (%)



Figure

9

Impact on the Lives of CTC Participants (%)

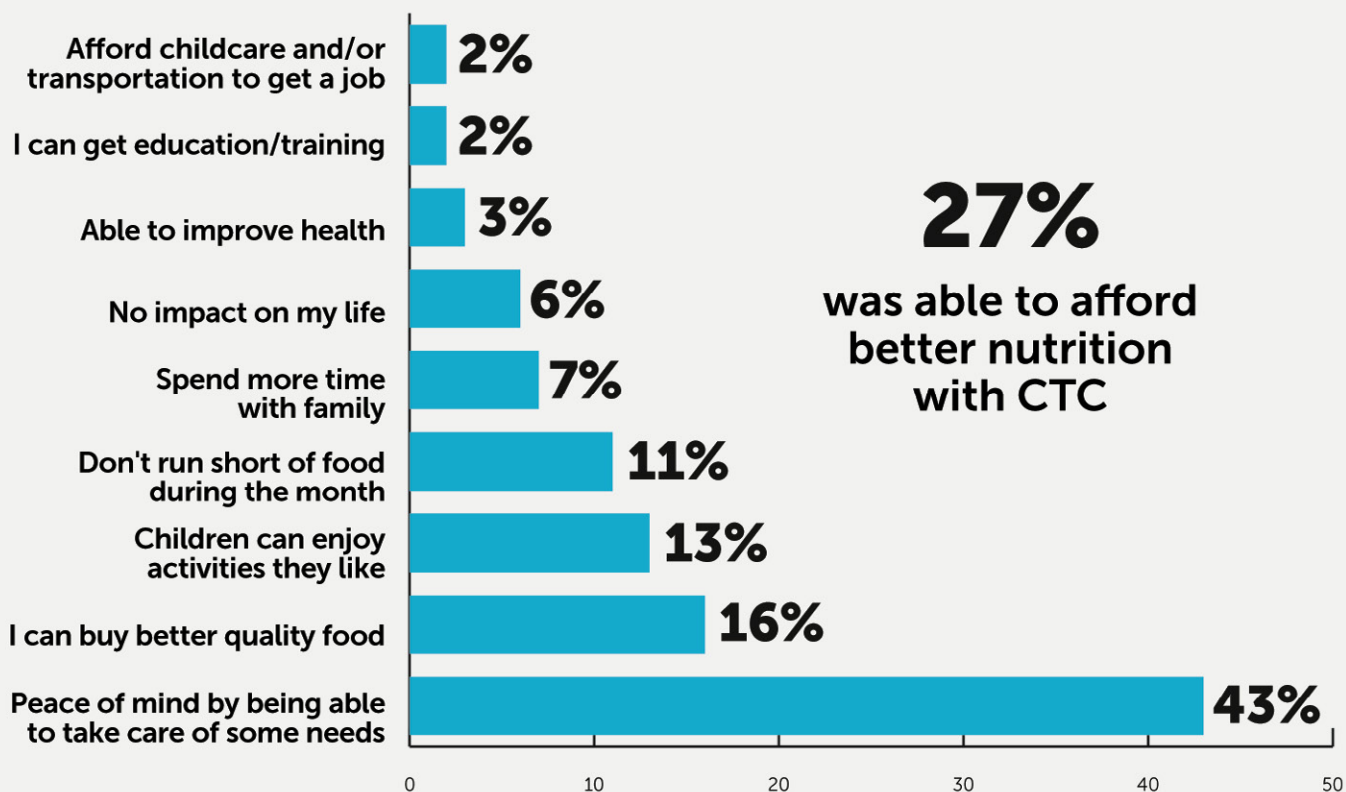


Figure
10

Use of CTC Benefits (%)

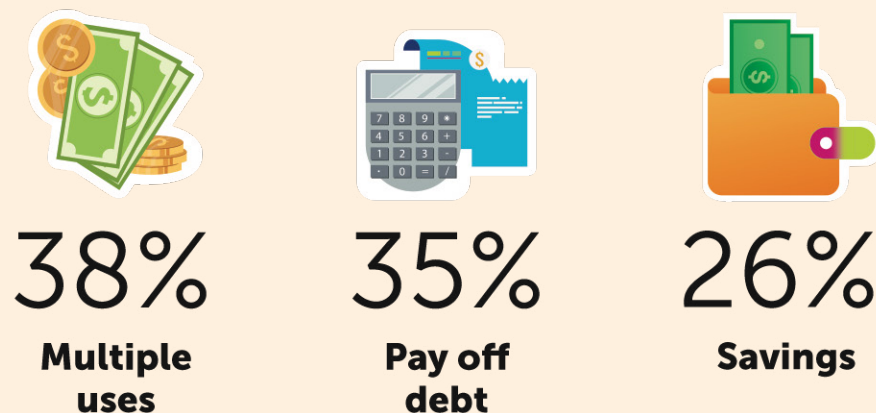
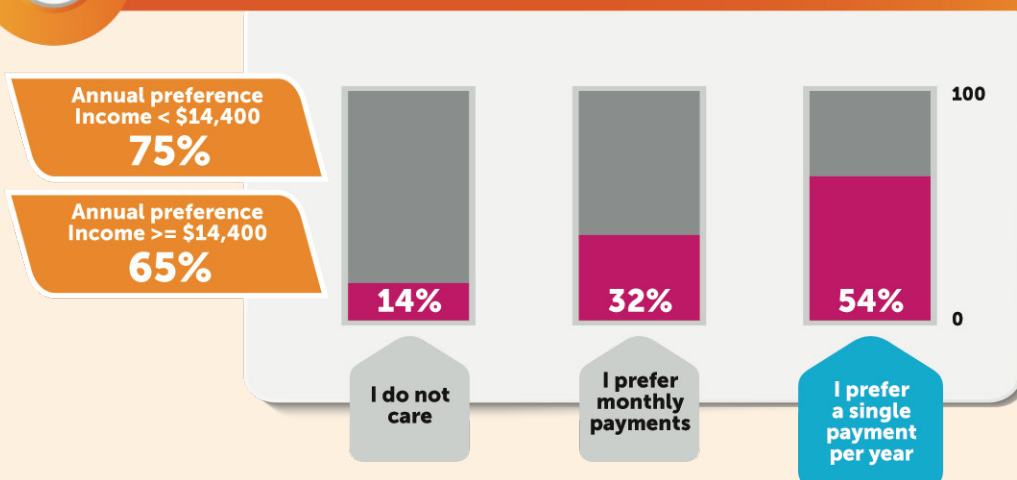


Figure
11

How Would You Prefer to Receive the CTC Benefits? (%)





Free Services to Expand CTC Access

Services Organized by Alliance for the Economic Security of Puerto Rico

The work of nonprofit organizations was fundamental in bringing to light problems in the initial implementation, and in proposing and executing solutions to expand the scope of educational efforts and free services, particularly in rural areas and the island municipalities (Vieques and Culebra).

Through the coordinated actions of the community-based organizations and government entities, 34 events were held for orientation and tax preparation services throughout Puerto Rico between March 28 and April 26, 2022.

During these events, IDJ observed several persistent challenges to CTC access in Puerto Rico:

- Lack of awareness and information about eligibility requirements:** Conversations to participants during the events showed a lack of familiarity with the IRS and the federal tax return filing process. Even with a robust educational campaign, people who were unaware of their possible eligibility attended every event. Recurring questions were mostly about eligibility rules regarding income, the relationship to the dependent child, and citizenship or immigration status. Many people believed they needed income to qualify or that the income they did receive disqualified them from receiving the benefit. They also believed they only qualified if they were the parent of the dependent child.¹⁷ In many cases, eligible people believed they could not file because another person had already fraudulently or mistakenly claimed the child under their care. Another challenge for organizations was addressing the needs of immigrants who did not have a social security number or individual tax identification number, since there was no clear guidance from expert agencies about their eligibility.
- The digital divide:** Access to online tools is not equal across Puerto Rico, and the digital divide was particularly evident during events held in rural areas and the island municipalities (Vieques and Culebra). In some cases, the limitation was seen in a lack of wireless coverage to use these tools. In other cases, the challenge was socioeconomic since people



lacked smartphones or computers with an internet connection or the computer skills to access the information and complete the process on their own. Given the limitations of technology, in-person events were very welcomed by these communities.

- **Lack of Spanish-speaking IRS staff:** People who attended the events reported receiving IRS letters in English, which they could not read. Likewise, they reported long wait times to receive Spanish-language assistance over the phone. At the start of the tax period, the free tax preparation tool TaxSlayer was not yet fully translated, which limited the ability of people to complete the filing process on their own. This topic repeats in the focus groups.
- **Informational materials that were not translated with cultural relevance:** There was confusion caused by the translation of some terms used in informational materials that were not culturally adapted to Puerto Rico. For example, the word *hijo* was used for child instead of the broader term *menor dependiente* [dependent child]. The official name in Spanish for the credit used by the IRS is *Crédito Tributario por Hijos Reembolsable*, which implies that the credit may only be claimed for one's own children, not for any dependent, and the name does

not indicate that it is only for dependent children. The phrase *declaración de impuestos* [tax declaration] was used instead of the phrase *llenar planilla* [file tax return], which is commonly used in Puerto Rico.

- **Difficulties with the identity verification process:** Thousands of families received IRS letters asking them to complete an identity verification process either online, by phone, or in person. The letters were first sent in English. In April, the letters were resent in Spanish, which caused confusion. The online identity verification process was plagued by hiccups, mainly because Puerto Rico addresses and identity documents could not be recognized, because materials were not fully translated into Spanish, and because of the long wait times to reach a Spanish-speaking agent if the individual could not complete the process themselves.¹⁵
- **Unsatisfactory services from private tax preparers:** During the events, people reported that they had already requested the CTC but had not yet received it and were unable to contact their private tax preparers to find out the status of their refund. In many cases, the preparers had neglected to give them copies of their tax return or had told them their taxes had been filed on paper, which delayed their processing.

¹⁵ National Taxpayer Advocate, Objectives Report to Congress, Fiscal Year 2023. https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/06/JRC23_FullReport.pdf



34 events held for orientation and free tax preparation services throughout Puerto Rico

- **Lack of access to in-person IRS services:** During events held in rural areas and the island municipalities (Vieques and Culebra), visitors commented how it was impossible for them to seek IRS services in the Guaynabo offices because they had limited access to transportation.

VITA Centers and IRS Taxpayer Experience Days

The testimony given by taxpayers demonstrates that the IRS was not prepared to assist the large number of people who sought services.

- **VITA Centers were delayed in opening:** Not all VITA Centers were open during the entirety of the filing period. This limited taxpayers' capacity to receive free services.
- **Limited access in high-need areas:** Most VITA Centers were in coastal towns and metropolitan areas, and there was limited presence in small municipalities and the mountain region, which are high-need areas due to their poverty rates. Many centers operated in universities and shopping malls. Taxpayer Experience Days were held only in Guaynabo municipality within the San Juan metropolitan area.
- **Poor space planning:** The location of Taxpayer Experience Days was overwhelmed by the high volume of people who attended. Hundreds of people had to stand in line outside in the scorching Puerto Rican summer heat and occasional rain showers. Though tax return filing and consulting services were originally offered in the same office, they were later separated between two offices in Guaynabo due to the high volume of visitors. However, visitors did not know which office to go to, so they sometimes had to stand in two different lines.
- **Insufficient staff to meet the demand for services:** Information provided by IRS staff in multi-sectoral meetings demonstrated the large number of people who attended Taxpayer Experience Days. Around 500 individuals from all over Puerto Rico attended the first event, some standing in line overnight. Although they were all assisted, many people received referrals, where the staff took their information and agreed to call them within five days because they did not have enough time to address their issue. More than 200 referrals were issued for cases that could not be fully addressed that day. During the second event, the IRS increased its capacity to be able to assist 750 people; however, by 9:30 a.m., more than 1,500 people had arrived. More than 300 referrals were issued. The following events were also attended by thousands of people, but the number of referrals was reduced as the IRS increased the available staff.

Voices of CTC Claimants

To bring the voices of CTC claimants into the scope of analysis on its impact, six focus groups were conducted: five in-person groups in five towns and one online focus group. With a total of 45 people participated, and with between six and eleven participants per group.

People Look for Credible Messengers

[You don't believe It until you see It in the press]

"Hasta que uno no lo ve en la prensa no lo cree".
— **mother from Bayamón**

[I had no idea there were people who filled it out for free because the accountant ads were online, and the centers started late.]

"Yo no tenía ni idea de que había gente que lo llenaba gratis, porque la promoción de los contables estaba en las redes y los centros empezaron tarde." — **mother from Ponce**

Overwhelming Language Barrier

[(The IRS letter was) in English, and every time they assist me, it's in English. Today (August 2022) I waited for more than two hours just for them to pick up in English. I tell them I don't speak English that I want to speak to someone in Spanish, and then I had to wait another hour and a half for them to answer.]

"(La carta de IRS) en inglés y cada vez que me atienden en inglés. Yo estuve hoy (agosto 2022) esperando dos horas y pico nada más en inglés, pa' que me contestaran en inglés, le digo que no hablo inglés que me pongan alguien en español y para esa llamada estuve esperando una hora y pico más para que me contestaran." — **mother from Arecibo**

A mother from Ponce expressed her solidarity and frustration, saying:

[There's no way for us here, knowing that we speak Spanish... there's no way that they—these women— can do this alone without [the help of] an English speaker].

"No hay manera para nosotros aquí, que saben que nuestro idioma es español... No hay manera que ellas pudieran hacerlo solas sin alguien que supiera inglés".

Excessive Tax Return Filing Costs

[Some people were charging up to \$500. But that is abusive, that's why Hacienda opened some centers, to help low-income people].

"Hubo gente que estaba cobrando hasta \$500. Pero eso es abuso, por eso fue que Hacienda abrió unos centros, para ayudar a personas de bajos recursos."—**mother from Bayamón**

[At first, they were saying that accountants were charging up to \$300 per child].

"Al principio estaban diciendo que los contables estaban cobrando hasta \$300 por cada niño."
— **mother from Bayamón**

[. . . "because she had gone to an accountant who was heavily advertising his services. She went because the service was supposedly free of charge. She filled out the form and wasn't charged right away. I told her that the amount was \$13,000, and she told me that the accountant said she would receive \$10,000. And I said, excuse me, but no. If you have this number of children, it's supposed to be this amount. The table is on the IRS page, and there were several websites where you could enter the number of

children and it would tell you how much you were going to receive].

"...porque ella fue donde un contable de estos que daban mucha promoción, ella fue y que era dizque gratis. Ella lo llenaba y al momento no le cobraban. Yo le dije que la cantidad era \$13,000 y ella me dijo que el contable le dijo que ella iba a recibir 10,000 dólares. Y yo, ¿perdón?, no. Si tú tienes esos niños, se supone que es esta cantidad, porque en la página del IRS está la tabla y había muchos sitios que tu ponías la cantidad de niños y te decía cuánto ibas a recibir."

—**mother from Ponce**

[They charged me \$200 per child, and I have two. When the funds were disbursed, that is when they collect their payment.]

"A mí me cobraron \$200 por cada niño y son dos. Cuando llegó la cantidad, ahí ellos (los preparadores) lo cobraron."—**mother from Bayamón**

Identity Theft and Wrongfully Claimed Refunds

[I haven't received anything. I visited an accountant who filled out the tax return, which was sent by mail. I still hadn't received anything, and it later turned out that my child's identity had been stolen. Now, I have to start a whole process, send evidence of the child, and wait 165 days. It doesn't show exactly who stole it.]

"A mí no me ha llegado nada. Fui a un contable y el contable me llenó el papel de las planillas y se envió por correo. No me llega nada y luego resulta que a mi hijo le robaron la identidad y tengo que hacer un proceso y enviar evidencia del menor y ahora tengo que esperar 165 días. No sale exactamente quién se la robó."—**mother from Culebra**

[I received a deposit in my account for my youngest daughter, but not my oldest daughter...When I went to Banco Popular, the manager notified me that my account had been frozen because it was under investigation. Supposedly, the girl's father had already received four checks on her behalf because he had claimed she was living with him, and that's just not true].

"Me depositaron en la cuenta la parte de ella, la de la mayor no... Cuando yo fui al Banco Popular el gerente me notificó que eso estaba "frozen" porque estaba en investigación, porque supuestamente el padre de la niña ya había cogido cuatro cheques a nombre de ella, como que él la tiene viviendo con ella y no es así."—**mother from Ponce**

Investments Towards Economic Mobility and the Well-being of Children

[I told my kid, 'This money is yours; it's got your name on it. Because it was sent to me as a check, not a bank deposit].

"Yo le dije, este dinero es tuyo, está a tu nombre. Porque a mí me llegó en cheque, no en depósito".— **mother from San Juan**

[...the children benefited because, when they saw that [the funds] had arrived, they got the things they needed. If [the funds] were intended for [the children], it was only fair to please them]

"...Los niños se beneficiaron porque al ver que el dinero llegó hubo cosas que le hacían falta, porque si se los dieron para ellos, era justo que si llegaron para ellos, que uno los complaciera".—**mother from Bayamón.**

[. . . Means of transportation, which I didn't have. We had to walk. And, you could say, I'm basically alone. Just to get to the store, we had to use a shopping cart and carry two gallons of water on foot, because we didn't even have \$5 to hail a taxi. I had to walk back with my son, rain or shine, whatever the weather conditions. And go back to get four more bags to carry. I mean, transportation. My son cried. That kid cried (when he saw we got a car)].

"Transportación, que no tenía, estábamos a pie. Y yo estoy, se puede decir, sola. Así que para ir a la tienda era con el carrito, traer dos botellas de agua a pie, porque tampoco había \$5 para el taxi. Regresar con mi muchachito bajo el sol, bajo la lluvia, bajo como fuera. Ir a buscar cuatro bolsitas más que pudiera yo cargar. O sea, transportación. Mi nene lloró. Ese niño lloró (cuando vio que tenía un carro)". —**mother from Ponce**

[Thanks to that money, I was able to purchase a vehicle for my daughter, who, God willing, is going away to college. Because there is no public transportation anymore, and [taking an] Uber bleeds you dry.]

"Con ese dinero pude completar para conseguirle una gagueta a mi hija que, con el favor de Dios, se va a estudiar. Porque ahora no hay carro público y Uber te parte..." —**mother from Culebra**

The ability to make improvements to the household and purchase adequate furnishings to keep up with the needs of developing children was also a priority. **Another mother from Culebra** highlighted that:

[the place where I live belongs to my mom. I'd like to build two rooms because I have a girl and a boy, and the place only has one room]

"Donde yo vivo es de mi mamá, me gustaría como que hacer dos cuartos; porque yo tengo una nena y un nene y donde yo vivo es un solo cuarto". —**mother from Culebra**

And **a mother from Bayamón** remarked the following:

[I bought a bedroom set for my son, because he still had a crib that turned into a bed, and he was

already 8 years old, and it was too small for him].

"A mi niño se le compró un juego de cuarto porque el que tenía era la cuna que se le convirtió en camita y ya el cumplió 8 años y le quedaba chiquita." —**mother from Bayamón**

Necessary relief, delayed

[. . . I had many commitments, and among those commitments, if I'm being honest, was paying off my debts so I wouldn't lose my home. With that money I was planning a quinceñera party, but now I have to hold off on it.]

"... yo tenía muchos compromisos, y dentro de esos compromisos, te soy bien honesta, estaba saldar mis cuentas para no perder mi vivienda. Con ese dinero yo tenía planificado el quinceañero y ahora me toca aguantarlo."

—**mother from Ponce**

[I think everyone got the money at the perfect time, when money was the tightest. That's when I got it].

"Yo creo que ese dinero le llegó a todo el mundo en el momento perfecto, cuando más apretado uno estaba, ahí fue que me llegaron los chavos".

—**mother from Arecibo**

Preference for Annual Payments

One of the participants (online) stated:

[I'd prefer it all in one payment, although monthly installments wouldn't be bad, but you'd risk getting one payment and not the next. But with a single payment, you'd already have the money available, and you could distribute it in a better way].

"Lo preferiría de un solo pago, aunque mensual no está mal, pero correría el riesgo de que llegue un pago y el otro no. Ya de un solo pago, lo tendría a la mano y podría distribuirlo de mejor manera".

[Well, I don't think anyone knows for sure what's going to happen, [and] the economy and money are always messing with people. And I'd rather receive it in one lump sum, because you never know].

"Por lo menos yo digo que uno nunca sabe, la economía y el dinero, siempre tienen un juego con las personas. Y los quiero todos de cantazo, de una, porque uno nunca sabe".—**mother from San Juan**

One mother from Ponce noted:

[I prefer it yearly because you almost always say, OK, I'm going to buy this particular item. For example, a bedroom set, how much does that cost? Let's say . . . \$3,000. I'd have to put aside \$300. Are you aware of all the expenses

that come up on a daily basis? If your car breaks down, you have to replace the part. You're not going to wait to get paid to fix the car. You're going to use that \$300, and you're no longer saving for the bedroom set.]

"Yo los prefiero anual porque casi siempre uno dice okay, voy a comprar tal cosa. Un ejemplo, un juego de cuarto, ¿cuánto me cuesta? \$3,000... ponle 300 tengo que guardar. ¿Tú sabes todos los gastos que le suceden a uno a diario? Que si se dañó el carro, que hay que cambiarle tal pieza, tú no vas a esperar a cobrar para arreglar el carro, vas a usar esos \$300 y ya no estás ahorrando para el juego de cuarto". —**mother from Ponce**

[I'd prefer it be paid yearly, because you know exactly what to spend it on. If it's monthly, you'll never get the chance.]

"Yo lo prefiero al año, porque sabes exactamente en qué gastarlo. Mensualmente tú no lo ves". —**mother from Ponce**

[I definitely prefer a single payment, because it allows you to make bigger investments, such as buying a bedroom set, things that my girls might need.]

"Yo definitivamente lo prefiero en un solo pago, porque eso te permite hacer inversiones más grandes como un juego de cuarto, cosas que necesiten las nenas." —**mother from online focus group**

Zip Code-level Data from ISR

Data from August 2022 were provided by IRS through the multisectoral meetings in which IDJ was participated. Zip code data were converted to municipality and compared to the number of families with children from the 2016-2020 municipal-level data from PRCS, the most current data available as of the timing of this report.

As of August 2022, the IRS had reported receiving 211,708 tax returns claiming the CTC from residents of Puerto Rico. Island-wide filing rate is 77%. This rate is close to that of the CTC Survey, which indicated that 75% of eligible families had not yet filed by mid-May. Rincón, Salinas, Trujillo Alto, and San Juan were the five municipalities with the lowest filing rate. These areas have a filing rate between 23% and 58%.

The IRS also reported the number of tax returns that were referred to the TPP. More than a third (35%) of all tax returns had been sent to the TPP to verify taxpayer identity. This number is quite high, something that had already been noted in the CTC Survey, focus groups, and in remarks from free-of-charge service centers. With a rate of 45%, the municipalities of Vieques and Utuado have the highest percentage of referrals to the TPP. Whereas Sabana Grande, Villalba, and Barranquitas have a referral rate between 27% and 29%, the lowest among the municipalities.

Another IRS statistic is the number of open TPP cases. The rate of open cases is calculated by dividing the number of open cases by the number of TPP referrals. This is a significant figure because it indicates the number of unresolved TPP cases, which means that there are people who have filed who have not yet received their disbursements or who may not receive them at all. Of all TPP referrals, 33% of cases were still open as of August 2022. Lajas, Guánica, Cabo Rojo, Culebra, and Rincón were the five municipalities with the highest rate of open cases.

The 33%–35% rate of open TPP cases shows that one out of three applicants faced difficulties during the identity verification process, which highlights the importance of support to ensure that eligible families receive the CTC.

IRS data are key to guide strategies aimed at communities, but due to the discrepancies between updated information on the CTC and Census data, it is challenging to retrieve accurate indicators from municipalities. Because of this limitation, it would be useful to have data per ZIP code of claimed children and disbursement amounts to more accurately identify communities in need of more services to access the CTC.

Factors Influencing Experiences with the CTC

Data examined in prior sections suggests key factors to gain a better understanding of the families' experiences with the CTC and to improve access to the credit.

1. **Income:** Low-income families are less likely to file for the CTC and are more likely to face obstacles while filing for the credit.
2. **Education Levels:** Having a college degree is a buffer for potential problems in filing for the CTC and may help speed benefit disbursement, as people with degrees were less likely to receive identity verification letters.
3. **ONG Engagement:** Nonprofit organizations sought to decrease communities' access barriers by delivering information on the CTC and providing filing assistance. ONGs went to places that are more isolated from bigger towns, where wireless internet signals are poor, to reach populations with limited technological proficiency.
4. **Language:** The lack of Spanish-speaking staff posed challenges for many families. Spanish-speaking families were forced to wait for hours to be assisted by the IRS.
5. **Technology:** People who were more tech savvy had better access to the CTC. Even if most applicants have cell phones and can make calls and surf the internet, the required technical knowledge to file online was out of reach for many, particularly seniors. In some areas, a stable internet connection, which was required to use online tools, was unavailable.
6. **The IRS's understanding of Puerto Rico:** The IRS does not appear to have been ready for the large number of forms from Puerto Rico, and it does not appear to have undertaken adequate planning for better service deployment. Informational materials in Spanish were not appropriately adapted to the sociocultural context of Puerto Rico.
7. **Geography:** People who live in bigger towns and in the metropolitan area managed to secure greater access to and better information on the CTC. Most VITA Centers were located in malls and big municipalities.

IRS service days took place in the metropolitan area. People from mountain regions also faced difficulties in terms of their internet connection while filing online.

8. **Informational campaigns:** People rely on traditional mass media—such as radio, television, and newspapers—and trustworthy advocates to gather information. Although they use social media, they are wary of its content, as they are aware of the disinformation that is disseminated there.

Principal Findings

Estimated Economic Impacts

1. For the first time in two decades, the child poverty rate is shifted. Thanks to the 2021 CTC, the adjusted child poverty rate has shrunk from 55% to 39%. This decrease of 16 percentage points is a historic, unprecedented reduction in Puerto Rico.
2. Even families that were not able to escape poverty still benefited from the CTC, as it had a remarkable effect on the mitigation of extreme poverty.
3. The combination of CTC and EITC made for a powerful tool for decreasing child poverty. As a result of the CTC and the EITC in 2021, the adjusted child poverty rate shrunk from 55% to 34%, 21 percentage points in total.
4. However, as we do not yet know for certain if the families filed and received the CTC or EITC and if the allocated amount does indeed coincide with the claimed amount, these are only potential effects. Even supposing that only 80% of eligible families received the 2021 CTC, the adjusted child poverty rate has been reduced to 40%, or 15 percentage points.
5. The power of the 2021 CTC to decrease poverty is largely due to the credit being available to people who earned no income from employment. These families made up 37% of all families in Puerto Rico in 2019.
6. After the expiration of the CTC stipulations under ARPA, Puerto Rico is still eligible for the CTC, and it is still available to all families with dependent children that earn income from employment. However, the amount has been reduced to a maximum of \$1,400 per dependent child, with a potential adjustment for inflation.
7. For residents of Puerto Rico, the CTC is calculated as

7.65% of income, and it is based on payments to Social Security and Medicare, instead of the 15% available to families in the United States.

Effects of the CTC on People's Lives

8. The CTC since the expiration of ARPA reduces the adjusted child poverty rate by just 1 percentage point with respect to the adjusted rate and rules from 2019.
 9. With the 2022 CTC, the number of eligible families would decrease by 80,000, and the number of eligible children would decrease by 161,000 in comparison to the 2021 CTC.
 10. The high rate of unemployed or very low-income families limit the impact of the 2022 CTC and the combination of the CTC and EITC as poverty reduction measures.
1. The CTC opened pathways to economic mobility by reducing debts, creating savings and generating investments in goods of long-term duration such as cars, furniture and home improvements.
 2. The CTC brought peace of mind to thousands of families because it alleviated various needs.
 3. The CTC was used in a balanced fashion—35% paid debts, 26% put it toward savings, and 38% used it for miscellaneous purposes.
 4. Low-income families were more likely to spend the money in multiple ways, which bespeaks pressing needs in situations of scarcity.

Access to the CTC

1. Families in Puerto Rico did not have the same access to the CTC as families in other jurisdictions, which resulted in payment delays. The online tool GetCTC.org was not available to Puerto Rico until mid-July 2022, and the TaxSlayer tool was not initially translated into Spanish.
 2. The IRS did not provide sufficient Spanish-speaking staff, which resulted in long queues for calls to receive assistance and solve problems.
 3. The ID.me process to verify identity often did not function properly with Puerto Rican IDs and was not practical for people who were technologically challenged.
 4. The access to IRS appointments to solve tax problems was limited and only five days of service without an appointment were offered. Furthermore, not all VITA Centers were open during the entire filing period. These circumstances restricted access to families from the mountain regions, the island municipalities (Vieques and Culebra), and municipalities isolated from urban centers.
 5. Low-income families faced the greatest challenges in securing access to services.
 6. As of May 2022, 45% of applicant families had not received the CTC, and as of August 2022, one out of three cases suspected of identity theft still remained open.
 7. Although families have expressed a preference for an annual disbursement over monthly installments, monthly disbursements were not even an option for residents of Puerto Rico.
5. The credit made possible costly purchases that families have not been able to cover due to limited income, such as cars for the guardian or for children who were going to college, home improvements, and bedroom furniture for the children.
 6. The well-being of children was key in the way families chose to use the benefits.
 7. For 27% of families, the CTC allowed for better nutrition and helped them afford their grocery bill at the end of the month.

Policy Recommendations

Data shown in prior sections indicate opportunities to improve the well-being of families with children as well as options to foster economic mobility.

US Congress and Federal Agencies

- 1. The CTC must be fully refundable.** The 2021 CTC decreased child poverty to unprecedented levels, brought peace of mind to thousands of families, reduced food insecurity, and opened pathways to economic mobility. Because it was fully refundable, families that had not received income from employment could receive the credit in its entirety, thus reaching the children who needed it the most.
- 2. Allow the residents of Puerto Rico to receive the CTC on the basis of 15% of earned income** instead of 7.65%, according to the CTC applicable in 2022. For those who do not have federally taxable income, the 2022 CTC is applied per 7.65% of income. 7.65% is the total percentage of payroll taxes (Social Security and Medicare).
- 3. Foster alliances between the public, private, community, and NGOs** to broaden the knowledge of families and expand the scope of free, trustworthy tax return preparation services. The experience with the 2021 CTC shows the potential of these alliances.
- 4. Reinforce the infrastructure to provide free federal tax return preparation services** and reaching agreements with universities to provide incentives to engage students in these efforts.
- 5. Expand the scope of free, in-person assistance to provide guidance, tax return preparation, and taxpayer support.** These services are essential, as many eligible families do not have the technology and skills to file federal tax returns and solve issues to expedite payment.
- 6. Organize early, ongoing educational campaigns on the benefits of the CTC/EITC, eligibility, and the availability of taxpayer support services.** Make these campaigns available in rural areas, the island municipalities (Vieques and Culebra), and to people who have low access to technology.
- 7. Adapt informational materials from the IRS for a Puerto Rican audience to ensure cultural relevance.**
- 8. Ensure that online tax return preparation tools are available in Puerto Rico** at the same time they are available to U.S. residents.
- 9. Establish information and service agreements between the IRS and the Puerto Rico Department of Treasury** that lead to a better experience for CTC applicants, such as having staff from the Puerto Rico Department of Treasury available to prepare federal tax returns, sharing information to solve identity verification issues, and organizing informational campaigns on the CTC and EITC.
- 10. The IRS and the Puerto Rico Department of Treasury must make available data** on the number of CTC and EITC applicants, their characteristics, and disbursement amounts, so that service and public policy organizations can optimize their offerings and share advice on how to increase access and improve the design of these programs.

Puerto Rico's Legislature and Executive Branch

- 1. Implement a local child tax credit program for families with children that are not eligible for the federal CTC.** In recent years, 12 states have implemented a version of child tax credit subsidized by state funding.

- 2. Maximize CTC and EITC eligibility by strengthening workforce support services,** such as trainings on the Workforce Innovation and Opportunity Act (WIOA) and the Community Development Grant Disaster Recovery Fund (CDBG-R), providing daycare and preschool programs that implement 2Gen models so more parents can join the workforce.

- 3. Include the development of an inclusive economy on the strategic model of PPropósito from the Department of Economic Development and Commerce.** This development must be implemented in such a way that no one is left behind and that all families benefit from economic growth, with quality employment to pave the way for economic mobility and to amplify the benefits of the CTC and EITC.

- 4. Introduce an inclusive framework in recovery projects.** Low-income families without a college education and other individuals with employment challenges must be able to access recovery jobs. Information on job openings must be available and accessible to all workers. The Central Office for Recovery, Reconstruction and Resiliency (COR3) should develop inclusion language and guidelines for recovery project awardees to adopt.

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