

# Improving Family Economic Security Through Tax Credits: State-Level Flexibilities for EITC and CTC

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May 29<sup>th</sup>, 2024



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## Initial prompt

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Q. What led you to join today's session?



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## Today's Agenda

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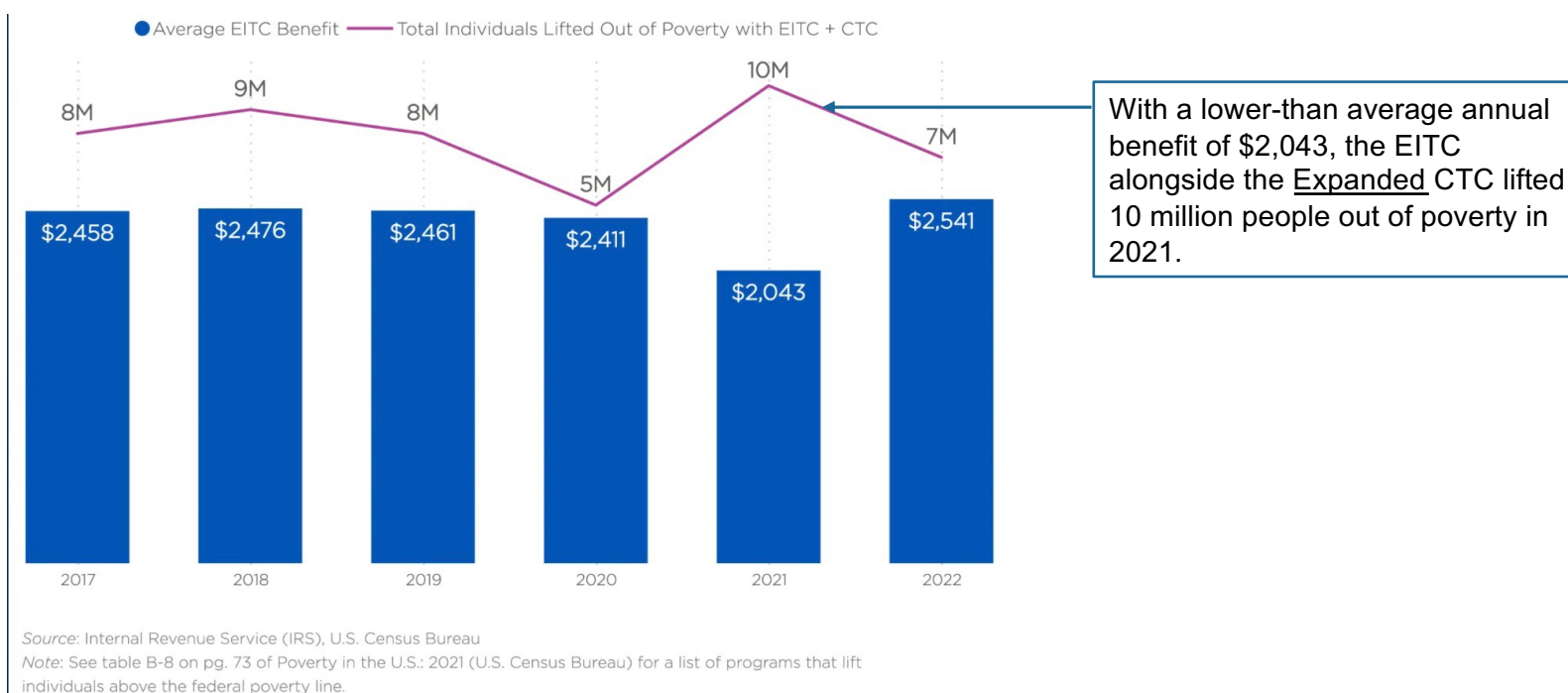
1. The Power of Federal EITCs and CTCs to Reduce Poverty
2. Federal and state-level EITC
  - a. Federal EITC guidelines
  - b. State-level EITCs in FES Community states
  - c. Exceptional state-level EITC provisions
3. Child Tax Credits (CTCs)
  - a. The Expanded Federal CTC
  - b. Federal guidelines for state-level CTCs
  - c. Recently created state-level CTCs
  - d. State-level CTCs in FES Community states



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# EITC + CTC significantly reduces poverty for families with children



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## State-level EITCs are usually designed as a percentage of the Federal EITC and most share other characteristics with it as well

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Under federal requirements for EITCs in tax season this year, to be eligible parents must (during 2023):

- Have worked and earned income less than \$63,398 (income limit)
- Have investment income no greater than \$11,000 (asset limit)
- Have a valid Social Security Number (SSN) by the due date of their 2023 return (including extensions)
- Have been a U.S. citizen or a resident alien throughout the year

Characteristics of federal EITC that **most** state-level EITCs share:

- Primarily designed to support families with children, and to provide additional help to those with two children
- Refundable
- Amount of credit phases out as parents earn more



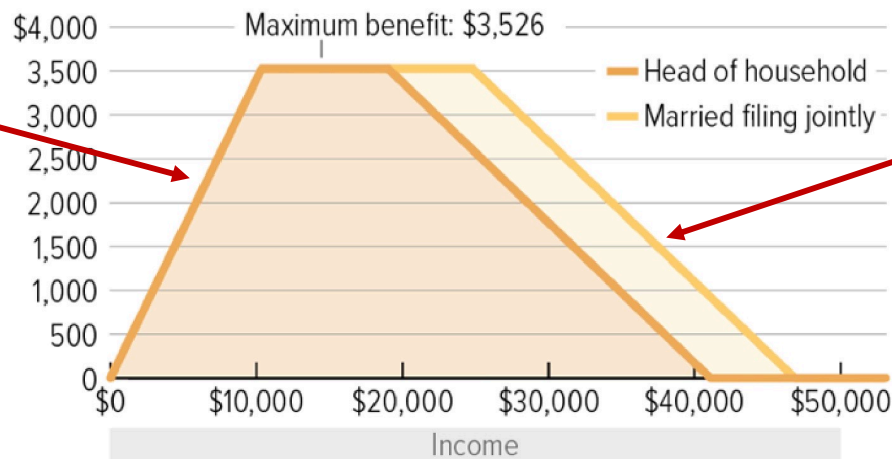
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# The EITC is designed to increase workforce participation in low-income families

**Earned Income Tax Credit for Households with One Child, 2019**

Credit amount “phases in for families as earnings increase.



Credit tapers as parents' earnings increase.

Note: Assumes all income is from earnings (as opposed to investments, for example).  
Source: Internal Revenue Service

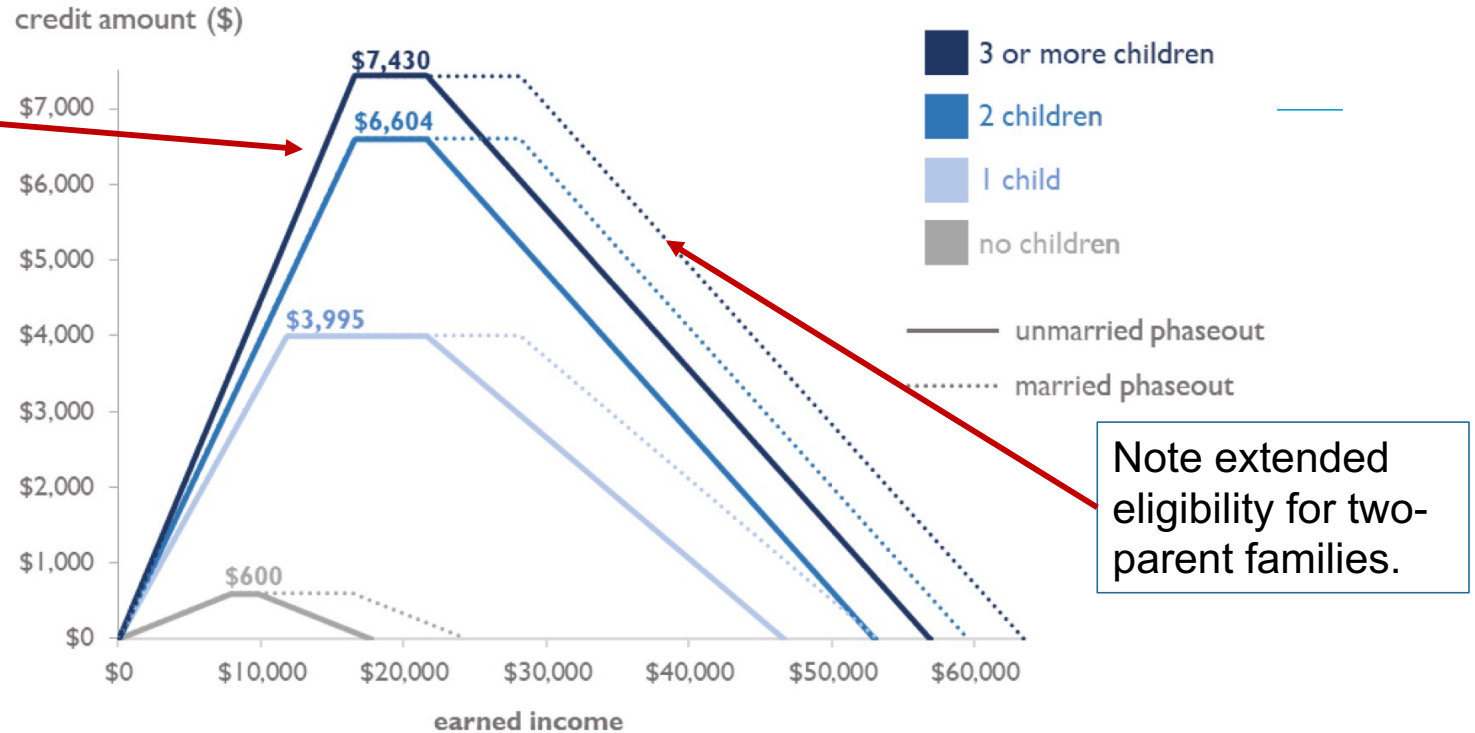


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**EITC Amount by Number of Qualifying Children, Marital Status, and Income, 2023**

Larger credits are available to families with more than one child.



Note extended eligibility for two-parent families.

**Source:** CRS calculations based on IRS Revenue Procedure 2022-38 and Internal Revenue Code §32.



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Community State	Refundable EITC?	% of federal?	Other	State Income Tax?
Alabama	N/A			Y
Alaska	N/A			N
Arkansas	N/A			Y
Colorado	Y	25%	One-year expansion to 50% of federal for tax year 2023. Is expected to rise and fall in response to budget surplus, etc.	Y
Delaware	Y/N	split	Refundable: 4.5% of the federal credit. Nonrefundable: 20% of the federal credit.	Y
Hawaii	Y	40%		Y
Indiana	N/A			Y
Kentucky	N/A			Y



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Community State	Refundable EITC?	% of federal ?	Other	State Income Tax?
Louisiana	Y	5%		Y
Maryland	Y	50%		Y
Mississippi	N/A			Y
New Jersey	Y	39%		Y
New Mexico	Y (WFTC)	25%	available to ITIN filers	Y
North Carolina	N/A			Y
South Carolina	partially	125%	If a refundable credit exceeds a taxpayer's state income tax liability, the taxpayer receives the excess.	Y



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Community State	Refundable EITC?	% of federal ?	Other	State Income Tax?
South Dakota	N/A			N
Texas	N/A			N
Virginia	Y	15%	Working to push % up to 20%	Y
Washington	Y (WFTC)	flat amounts: \$625 for families with 1 child; \$940 for 2 children; \$1,255 for 3 or more children	available to ITIN filers, sets lower income limits than federal tax credit does	N
Wyoming	N/A			N



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## Innovative state-level EITC provisions

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- New York and D.C. offer a state-level EITC to **noncustodial parents** that has been shown to provide real benefits to children of those parents.
- D.C. provides state EITC payments on a **periodic schedule (once per month)** to families eligible for the full credit.
- Massachusetts provides a state-level EITC to otherwise-ineligible **survivors of domestic abuse**.
- California provides an *additional* credit to **families with children under six**.
- A number of states are providing state-level EITCs to households without children.

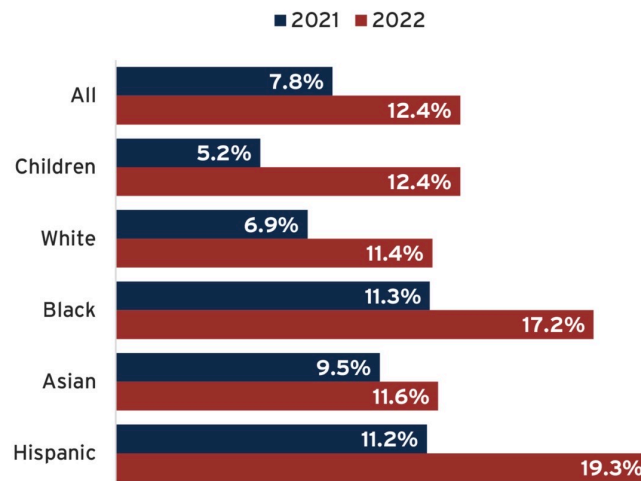


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When temporary expansion of the Federal CTC in 2021 ended, it was followed by an increase in poverty that was higher for some groups than others.

**FIGURE 3.** Supplemental Poverty Measure  
by Demographic, 2021 and 2022



Source: Institute on Taxation and Economic Policy, September 2023

Institute on Taxation and Economic Policy | [ITEP.org](https://itep.org)



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## Provisions of the Expanded Child Tax Credit (within the American Rescue Plan)

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Under the provisions of the ARP:

- Beginning in July 2021 and through December for 2021, parents of children from 0 to 6 received \$300/month, or \$1800/per young child per month, even those earning no income.
- Parents of children from 7 to 17 received \$250/month, or \$1500/per older child.
- In tax season in early 2022, parents who filed their taxes and claimed it would receive an additional “lump sum” amount of \$1800/child or \$1500/child, depending on the age of their children.
- There was no income requirement to receive the credit, although there were caps on families with higher incomes.\*
- The total CTC was “fully refundable.” Parents could claim all of the credit even if they didn’t owe any taxes, no matter what their income level.
- ITIN-filers could get the credit for children born in the U.S.



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# The Expanded Child Tax Credit had many positive effects for low-income children

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- The monthly cash benefits were responsible for moving more than three million children out of poverty across the country.
- Later analysis of transactional data from bank accounts and credit cards from several partner financial institutions during that time showed that recipients of the CTC:
  - Increased spending on **groceries, education, and healthcare;**
  - Spent more money **reducing debt**, and so incurred **fewer overdraft fees;**
  - Were not significantly likely to leave the workforce.



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# The Expanded CTC made a bigger difference in some states than in others

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Reductions in child poverty were greatest in states with relatively **lower** costs of living and **higher** pre-tax and transfer poverty rates. Examples:

- Without the CTC, Louisiana's child poverty rate would have been 15.7% in 2021; with it, it was 6.9%, reflecting a 56.2% decrease.
- Without the CTC, Michigan's child poverty rate would have been 11.8% in 2021; with it, it was 6.3%, reflecting a 46.9% decrease.
- Without the CTC, Alaska's child poverty rate would have been 9.9% in 2021; with it, it was 6.1%, reflecting a 37.8% decrease.



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## In its current form, the amount of a CTC that a family can receive is determined by family size *and* family earnings

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- Today, the credit is again only partially refundable. Starting at \$2,500 in earnings, the credit phases in at a 15% rate, meaning for every \$100 earned above \$2,500, a taxpayer receives \$15 in CTC.
- Example: A taxpayer with \$3,500 in earnings would receive \$150 in CTC ( $\$3,500 - \$2,500 = \$1,000$ ;  $\$1,000 * 15\% = \$150$ ).
- A taxpayer with multiple children must phase in the credit amount one child at a time.
- A two-parent, two-child family needs to earn more than \$36,000 to qualify for the *full* refund of \$4,000 (or \$2,000/child)).
- If they added a third child to the family, they would need close to 20% more in earnings to continue receiving the *full* CTC refund, and a family with four children would need to earn even more.
- Two adults working full time at the federal minimum wage take home \$25,375 in earnings and therefore would not qualify for the full refund at any family size.



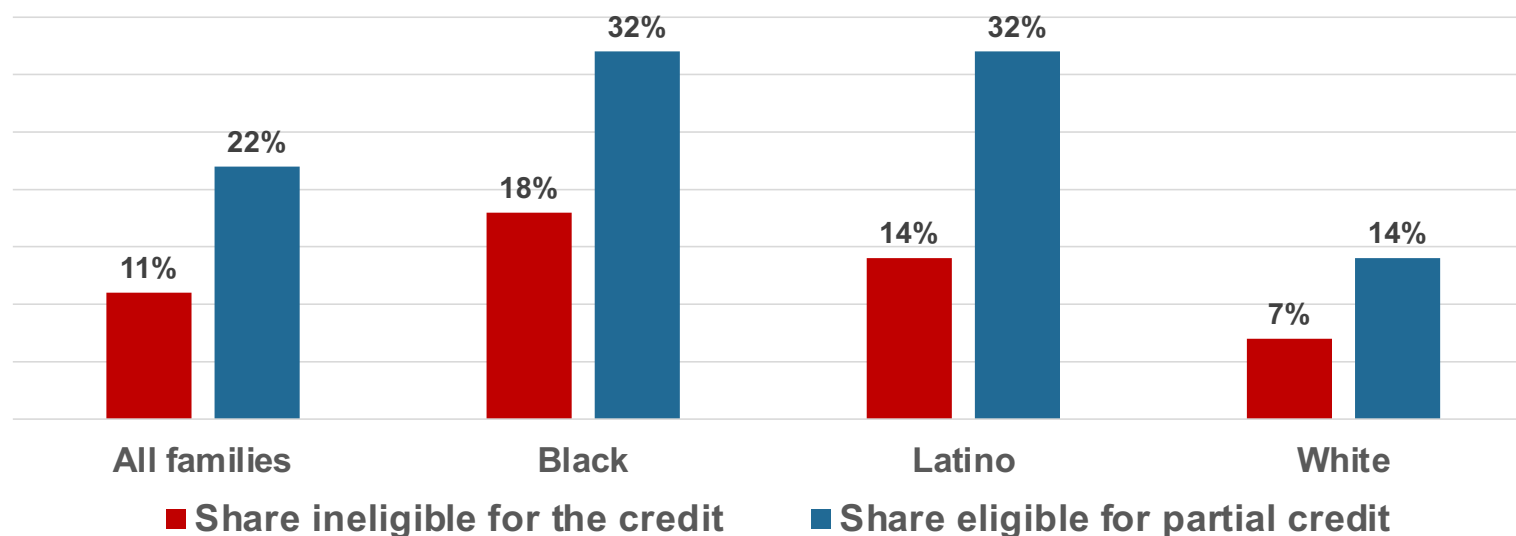
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# Which children were ineligible for child tax credits, or eligible for only a partial credit?

Share of children ineligible for the CTC  
(before 2021)

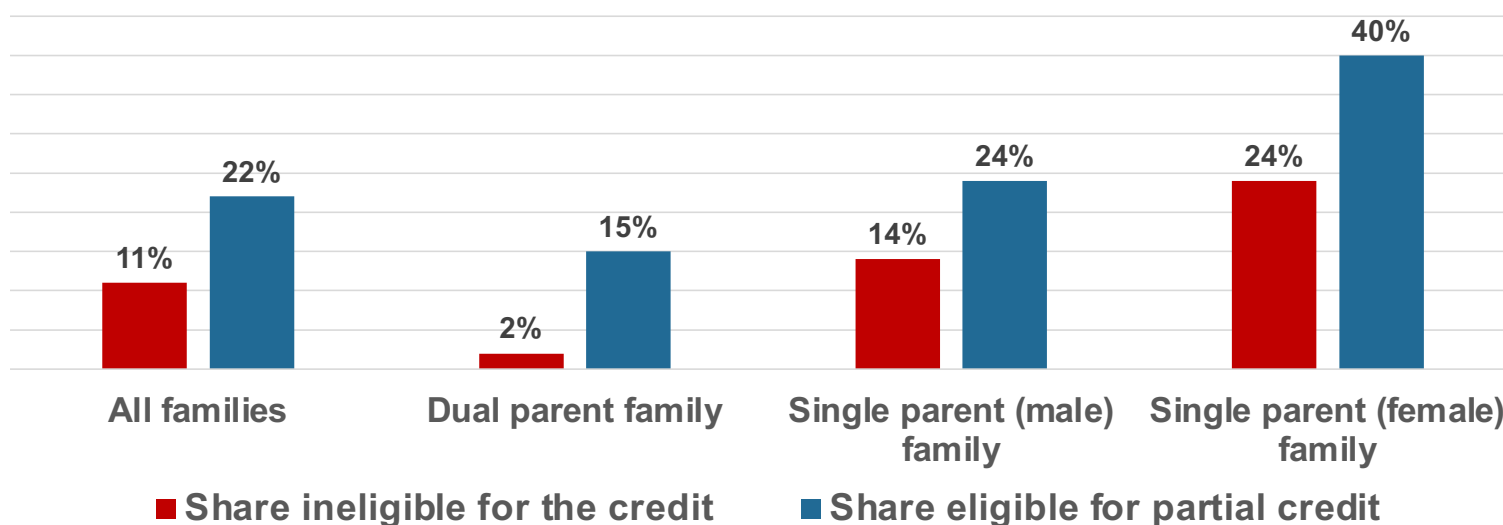


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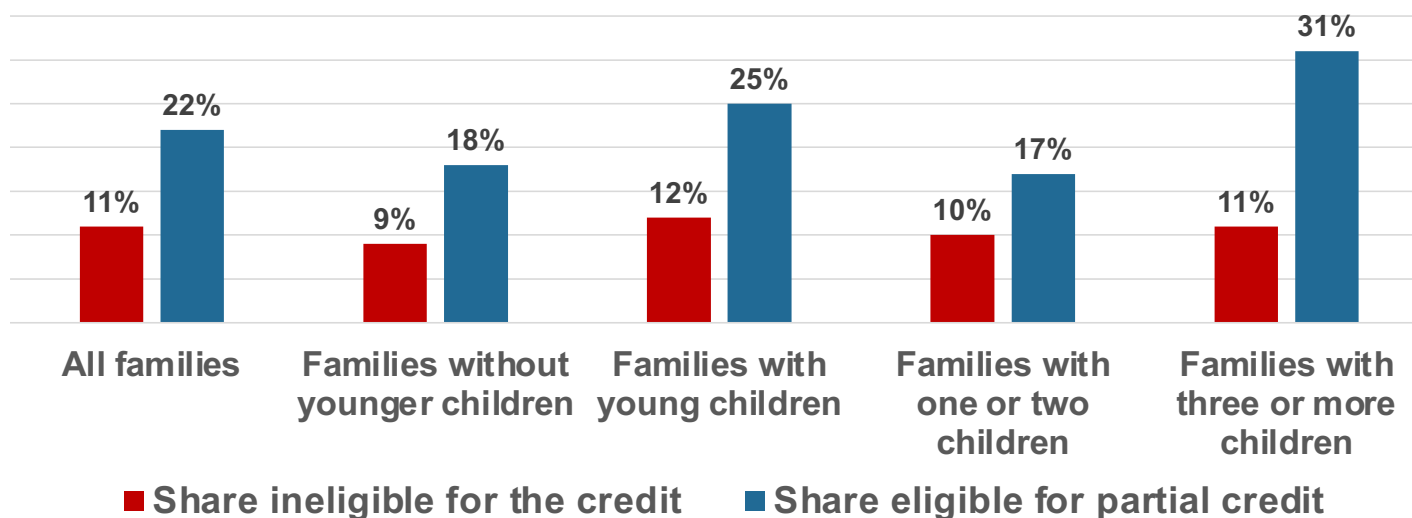


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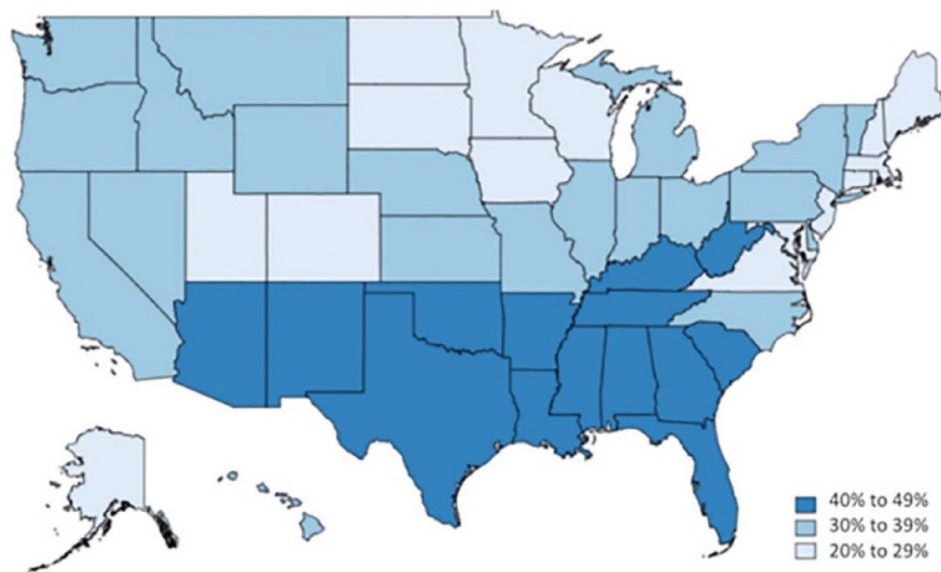
Share of children ineligible for the CTC  
(before 2021)



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## Where were children ineligible for the full CTC in 2019 most likely to live?



**Figure 3** Share of Children Ineligible for the Full CTC, by State

NOTE: Produced using the 2019 American Community Survey (ACS), retrieved from IPUMS-ACS (Ruggles et al. 2023).



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## State-level CTCs are now seen as an answer to child poverty by many

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Fourteen states now provide permanent Child Tax Credits:

- The eleven states with fully refundable Child Tax Credits in 2024 are California, Colorado, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New Mexico, New York, Oregon, and Vermont.
- Idaho, Oklahoma, and Utah offer nonrefundable credits.

Three of these states created brand-new CTC programs in 2023: Minnesota, Oregon, and Utah.



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## Legislative provisions of Child Tax Credits that are critical to reducing poverty levels

This provision:	Means that:
Fully refundable	<b>The full amount of the credit can be refunded to families who do not have tax liabilities, regardless of their income.</b>
Available without minimum income requirement	<b>Families with low income, or no income, are eligible to receive the credit. (Requires full refundability.)</b>
Size of the credit	<b>More generous credits are more effective in reducing child poverty.</b>
Maximum credit amount per child rather than per household	<b>Support larger families equitably.</b>
Advance payments	<b>Smaller monthly cash payments; very helpful in meeting basic needs and alleviating family stress.</b>



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# Legislative provisions of Minnesota's new Child Tax Credit

This provision:	Under Minnesota's CTC:
Fully refundable	<b>The full amount of the credit can be refunded to all families who do not have tax liabilities, regardless of their income.</b>
Available without minimum income requirement	<b>No minimum income requirements. (The credit phases out if income is over \$29,500, or \$35,000 for Married Filing Jointly).</b>
Size of the credit	<b>\$1,750 per child.</b>
A maximum amount per child rather than per household	<b>Available for every dependent child in the family who is under 18.</b>
Advanced payments	<b>No, although state administrators hope to begin providing these in another year.</b>



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# Legislative provisions of Oregon's new Child Tax Credit

This provision:	Under Oregon's CTC:
Fully refundable	<b>Yes.</b>
Available without minimum income requirement	<b>Yes. (Above a modified AGI of \$25,000 the credit is reduced and is completely phased out (\$0) at a modified AGI of \$30,000.)</b>
Size of the credit	<b>\$1,000 per child</b>
A maximum amount per child rather than per household	<b>Available for every child in the family who is from 0-5 years of age, for up to five dependent children.</b>
Advanced payments	<b>No.</b>



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## Legislative provisions of Utah's new Child Tax Credit

This provision:	Under Utah's CTC:
Fully refundable	<b>No. It can only be used to reduce the family's taxes.</b>
Available without minimum income requirement	<b>No. Since the credit is non-refundable, families must earn income. (The credit available phases out with income above \$43,000, or \$53,00 for a couple.)</b>
Size of the credit	<b>\$1,000 per child.</b>
A maximum amount per child rather than per household	<b>Available for every dependent child in the family who is from 1-3 years of age.</b>
Advanced payments	<b>n/a</b>



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# What do we need to move forward with poverty reduction through Child Tax Credit(s)?

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## **Policy details matter a lot:**

- Is it fully refundable?
- Are there minimum income requirements?
- Will families with young children receive help?
- Will families with more children receive more help?

## **How many low-income parents and children will receive help,** and

By how much will the poverty rate be reduced through this program?



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Community State	Fully refundable CTC?	Minimum income?	Size of credit	Age of child?	Limit # of children?	Advance payments?	Income guidelines, other (ITIN?)
Colorado	Yes	unclear	Max is \$1,200 per child; ranges from 20% to 70% of federal CTC*	Under 6.		No	Earning less than \$75,000 for single filers, \$85,000 for married filing jointly; available to ITIN filers.
Maryland	Yes	No	\$500 per child	Under 6; or under 17 with a disability	No	No	Earning less than \$6,000
New Jersey	Yes	Yes, families "must have taxable income."	\$1000 per child (max)	Under 6.	No	No	Earning \$80,000 or less; credit starts to taper above \$30,000 income. Available to ITIN filers.



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Community State	Fully refundable CTC?	Minimum income requirement?	Size of credit	Limits on age of child?	Limit # of children?	Advance payments?	Income guidelines, other (ITIN?)
New Mexico	Yes	No	\$600 per child, tapering at higher income levels.	Follows federal guidelines, so 0-17.	No.	No.	Families earning less than \$25,000 receive full \$600/child; credit amount tapers with families earning \$350,000 receiving \$25/child.
New York	Yes	Yes, families "must have taxable income."	\$100/child or 33% of federal CTC	Under 17	No	No	Earning less than \$115,000 if married filing jointly or \$55,000 if filing single; allows ITIN filers to receive credit.



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## Are tax credits considered “income” in eligibility tests for safety net programs (like TANF or SNAP?)

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This is an important question to consider particularly if periodic (monthly or quarterly) payments are considered. For example:

- The federal USDA has counted state periodic payments of refundable tax credits as income for SNAP, which could reduce the amount of support people receive from that program.
- States can decide to exempt tax credits paid more than once a year from benefits calculations through TANF cash assistance.

Minnesota advocate has shared a resource that was used there to discuss impacts of refundable CTC (or guaranteed income) on SNAP and other public benefits. This will be shared with you, along with these slides. (Thank you, Laura!)



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## Education about tax credits is a critical topic for advocacy and likely should be included in budgeting

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- One in five families across the country does not take up the federal EITC.
- Minnesota is holding a forum for child care workers, FFN, and doula providers to share 2023 legislation changes with families to make sure more families take advantage of the new credit.
- Many immigrant parents have strong reluctance to file for child tax credits for which they are eligible, and may require extra communication, with materials in appropriate languages and dialects.



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## Montana's attempted CTC from last year.

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2023 LEGISLATURE

### Democratic opposition may stymie Gianforte's child tax credit push

Voting with hardline Republicans, Democrats killed a bill that would have granted \$1,200-per-child tax credits to families with young children. The governor says it may rise again.

In an interesting case last year, Democrats in the state legislature in Montana did not support a CTC proposed by the Governor. This article quoted one Democrat mentioning that an income was required for families to gain the credit, and that this provision was a stumbling block.



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**Thank you for listening, and thank you for the work you do.**

(Looking forward to our follow-up open-format meeting on this subject on June 26<sup>th</sup> at 2pm ET.)

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