

WEBINAR

State Tax Credits: How States Can Leverage Tax Policy to Alleviate Childhood Poverty

May 24, 2023

prenatal-to-3
policy IMPACT CENTER
RESEARCH FOR ACTION AND OUTCOMES



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State Tax Credits

- What are they?
- Do they improve outcomes for children and families?
- How common are they in the US?
- What policy levers do states need to consider?
- How have states effectively adopted and implemented them?

Tax Levers

- **Tax Deduction:** Reduces your taxable income, which reduces your tax burden
 - *If you earn \$50,000 and have a mortgage interest deduction of \$5,000, then you only pay income taxes on \$45,000.*
- **Tax Credit:** Directly reduces your tax burden by the amount of the credit, but only up to your total tax burden
 - *If you owe \$10,000 in income taxes but have a \$2,000 credit, you only owe \$8,000 in taxes.*
- **Refundable Tax Credit:** Reduces your tax burden, and refunds money to you if your burden is larger than the credit
 - *If you owe \$1,500 in income taxes but have a \$2,000 credit, you will receive \$500 in a refund.*

Variations in State Income Support Policies

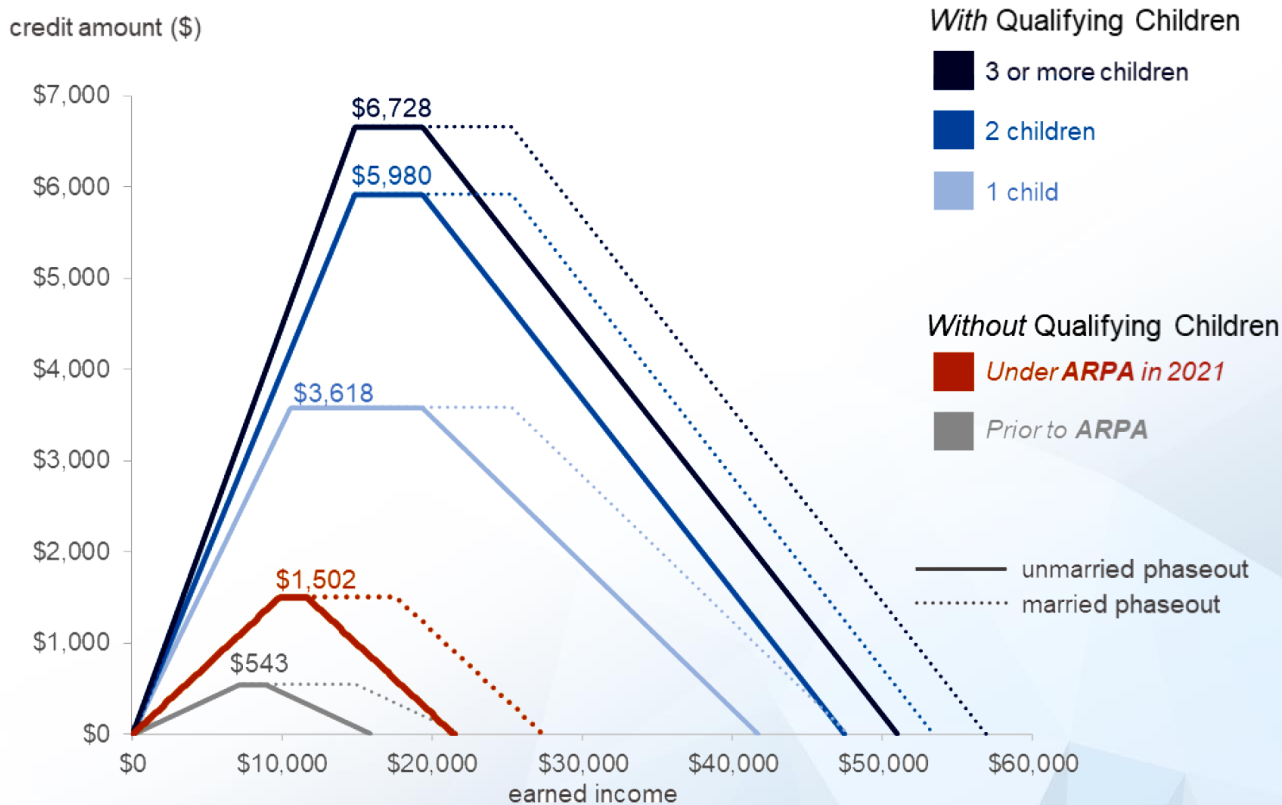
- Earned Income Tax Credit*
- Child Tax Credit*
- Child and Dependent Care Credit*
- Child Allowance
- Universal Basic Income
- Conditional Cash Transfer

**Refundability is key to effectiveness*

Key Distinctions of Income Support Policies

Tax Credit or Allowance	Universal v. Targeted	Conditional v. Unconditional	Monthly v. Annually
Earned Income Tax Credit	Parents	Work	Annually
Child Tax Credit	Parents	No Conditions	Annually
Child & Dependent Care Credit	Caregiver	Using care services	Annually
Child Allowance	Parents	No Conditions	Monthly
Universal Basic Income	All Residents	No Conditions	Monthly or Annually
Conditional Cash Transfer	All Participants	Conditions stipulated (e.g., work, school)	Monthly or Annually

EITC is Oldest and Most Common Credit

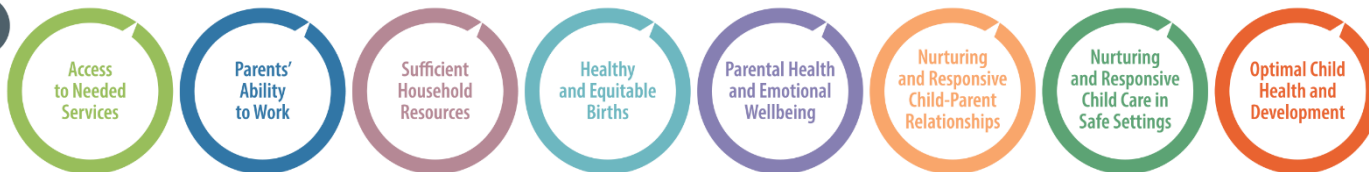


Long History of Bipartisan Support for the EITC

- 1969 – Nixon proposed a Negative Income Tax
- 1975 – Ford created first EITC – temporary
- 1978 – Carter made it permanent
- 1984 & 1986 – Reagan expanded it
- 1990 – Bush expanded it
- 1996 – Clinton modified and expanded it
- 2001 – Bush expanded it
- 2009 & 2016 – Obama expanded and modified it
- 2021 – Biden temporarily expanded it and increased child tax credit



















GOALS

To achieve a science-driven PN-3 goal:



POLICIES

Adopt and fully implement the **effective policies** aligned with the goal

Expanded Income Eligibility for Health Insurance								
Reduced Administrative Burden for SNAP								
Paid Family Leave Program of at Least 6 weeks								
State Minimum Wage of \$10.00 or Greater								
Refundable State Earned Income Tax Credit of at Least 10%								
OUTCOMES	Health Insurance Adequate Prenatal Care Access to SNAP Developmental Screenings	Parental Employment	Child Poverty Crowded Housing Food Insecurity	Preterm Births Infant Mortality	Maternal Mental Health Parenting Support	Daily Reading Daily Nurturing Behaviors Parenting Stress	Child Care Providers Participating in QRIS Access to EHS	Breastfeeding Immunizations Child Maltreatment
Measure progress toward achieving the PN-3 goal.								

POLICY

State Earned Income Tax Credit

How Does a Higher State EITC Impact PN-3 Outcomes?

Parents' Ability to Work

- With each additional \$1,000 in average EITC benefits (federal plus state), unmarried mothers with children under age 3 were 9 percentage points more likely to work (C)
- A state EITC set at 10% of the federal credit increased employment among single mothers by 2.1 percentage points compared to single women with no children (GG)
- Living in a state with an EITC increased the likelihood of mothers' employment (for at least one week per year) by 19% (B)

Sufficient Household Resources

- State EITCs increased mothers' annual wages by 32% (B)
- A \$1,000 increase in average federal and state EITC benefits led to an increase of \$2,400 in the pre-tax earnings of households with infants and toddlers, and poverty was reduced by 5 percentage points (C)
- A rigorous simulation found that if all states adopted the policy of the most generous EITC state, then child poverty would be reduced by 1.2 percentage points (KK)

Healthy and Equitable Births

- The state EITC led to increases in birthweight of between 16 and 104 grams, depending on the credit's generosity level (B, CC)
- In states with refundable EITCs of at least 10% of the federal credit, Black mothers with a high school education or less saw greater reductions in low birthweight rates for their infants (1.4 percentage points) compared to White mothers with a high school education or less (0.7 percentage points) (II)

Benefit-Cost Analysis of Implementing a Refundable EITC in Pennsylvania

Summary of Estimated Benefits and Costs of a Refundable EITC in Pennsylvania

	10% Refundable EITC	25% Refundable EITC
Approximate # of Households Benefiting	715,700	873,900
Average Annual Benefit per Household	\$197	\$594
Total Additional Costs	\$81 million	\$366 million
Total Benefits (including cost avoidance)	\$562 million	\$1.2 billion
Benefit-to-Cost Ratio	7 to 1	3 to 1

Total benefits include

- State tax revenue: income tax, sales tax, and other tax
- Cost avoidance: low birthweight hospital costs, special education, foster care entry, crime/public safety, and child health insurance coverage and outcomes

Benefit-Cost Analysis of Implementing a Refundable EITC in South Carolina

Summary of Estimated Benefits and Costs of a Refundable EITC in South Carolina

	10% Refundable EITC	25% Refundable EITC
Approximate # of Households Benefiting	148,500	234,910
Average Annual Benefit per Household	\$265	\$735
Total Additional Costs	\$16 million	\$101 million
Total Benefits (including cost avoidance)	\$172 million	\$427 million
Benefit-to-Cost Ratio	10 to 1	4 to 1

Total benefits include

- State tax revenue: income tax, sales tax, and other tax
- Cost avoidance: low birthweight hospital costs, special education, and child health insurance coverage and outcomes

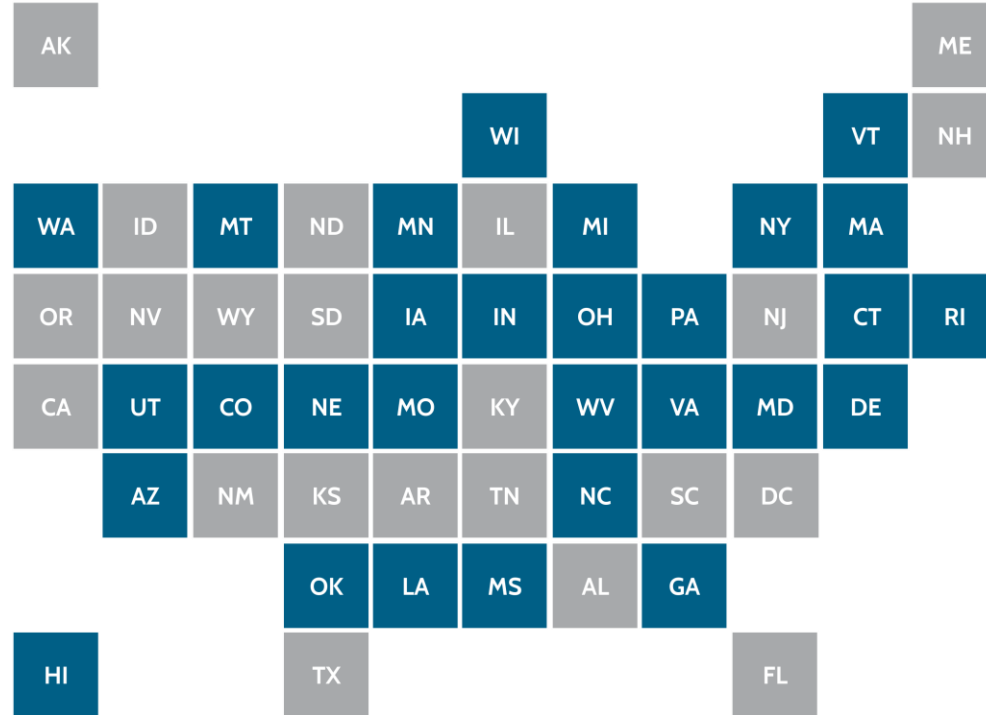
28 States Have Refundable EITCs in Tax Year 2023

Rhode Island was first state to implement a state EITC in 1986



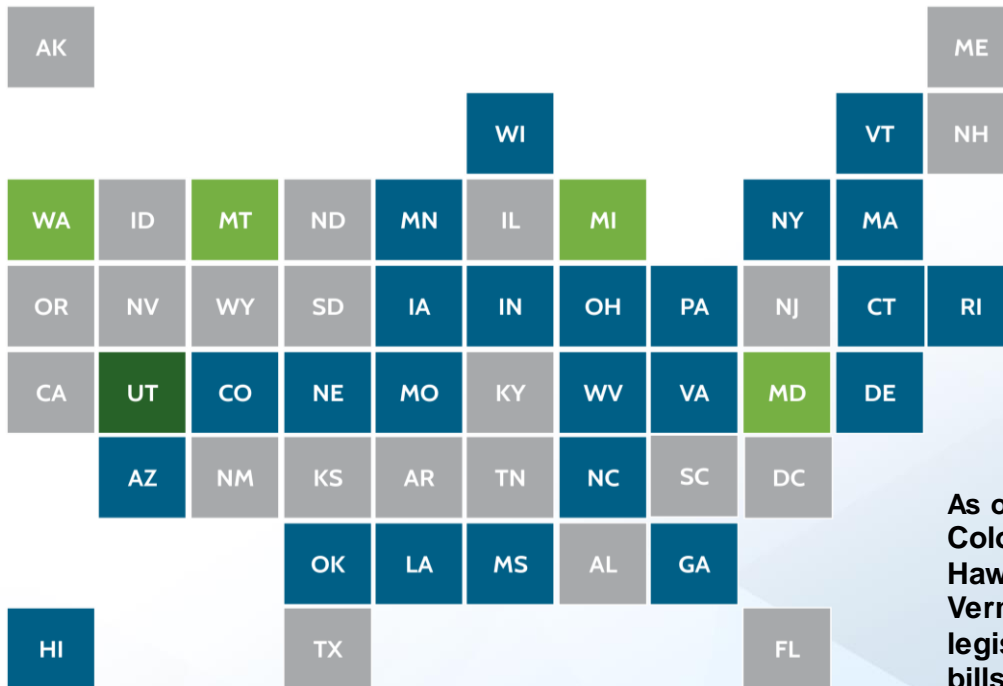

Which states introduced legislation to adopt or expand an EITC this year?

29 States Introduced EITC Legislation



Which states enacted legislation to adopt or expand a refundable EITC of at least 10% of the federal credit?

4 States Enacted Legislation to Adopt or Expand a Refundable EITC of at Least 10% of the Federal Credit

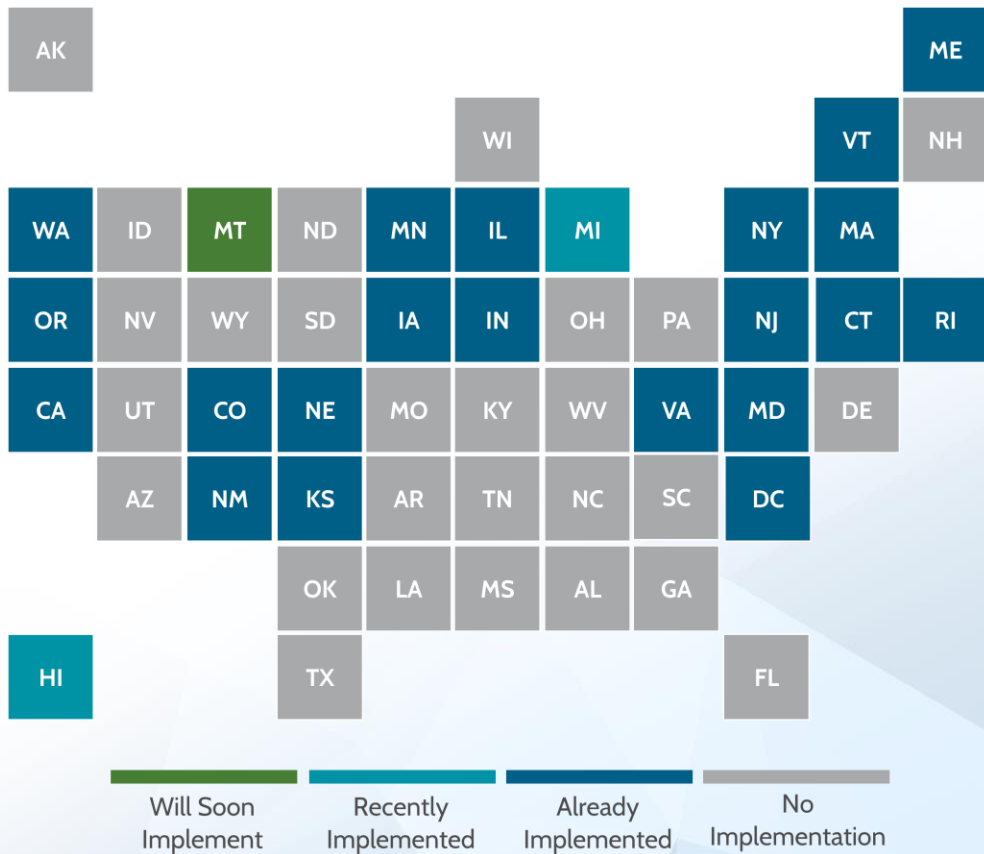


As of May 15th, Colorado, Hawaii, and Vermont state legislatures passed bills to expand their state EITCs and were waiting for executive action.



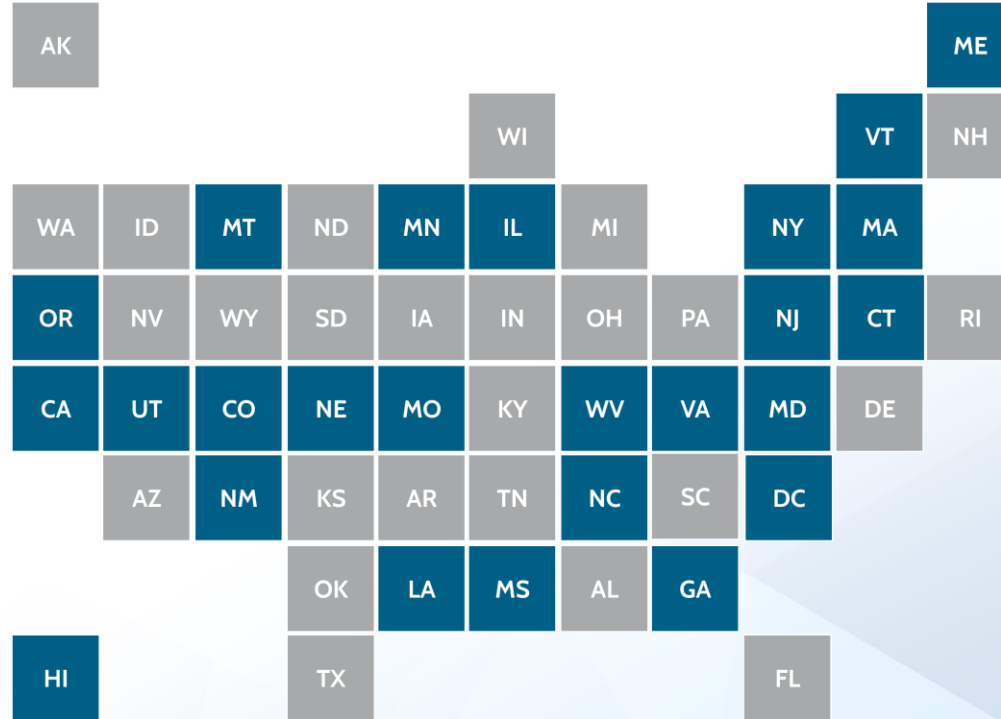
Which states have recently implemented a refundable EITC of at least 10% of the federal credit?

2 New States Fully Implemented a Refundable EITC of at Least 10% of the Federal Credit in Tax Year 2023, and 1 State Will Do So in Future Tax Years



Which states introduced legislation to adopt or expand a CTC this year?

25 States Introduced CTC Legislation



Introduced Legislation No Legislation

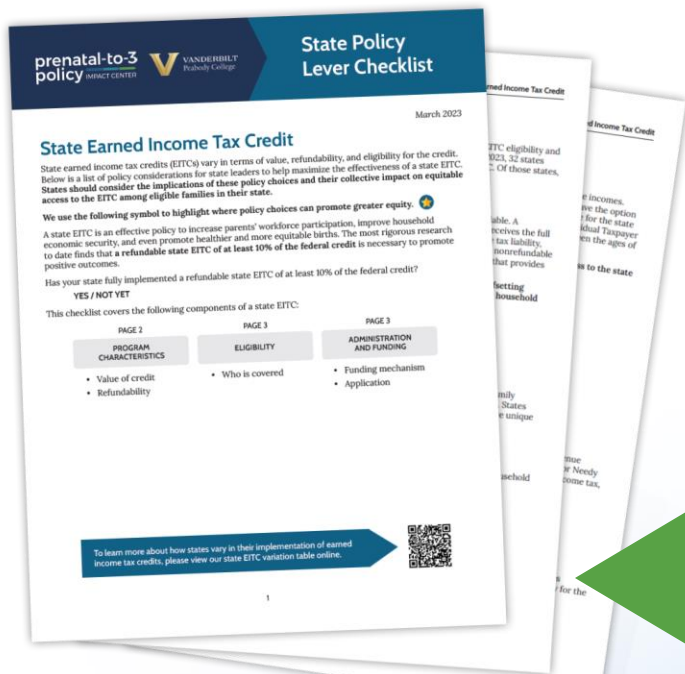
Which states enacted legislation to adopt or expand a CTC this year?

4 States Enacted CTC Legislation




As of May 15th, state legislatures in Colorado and Vermont passed bills to expand the state CTC and were waiting for executive action.

State Policy Considerations for the EITC

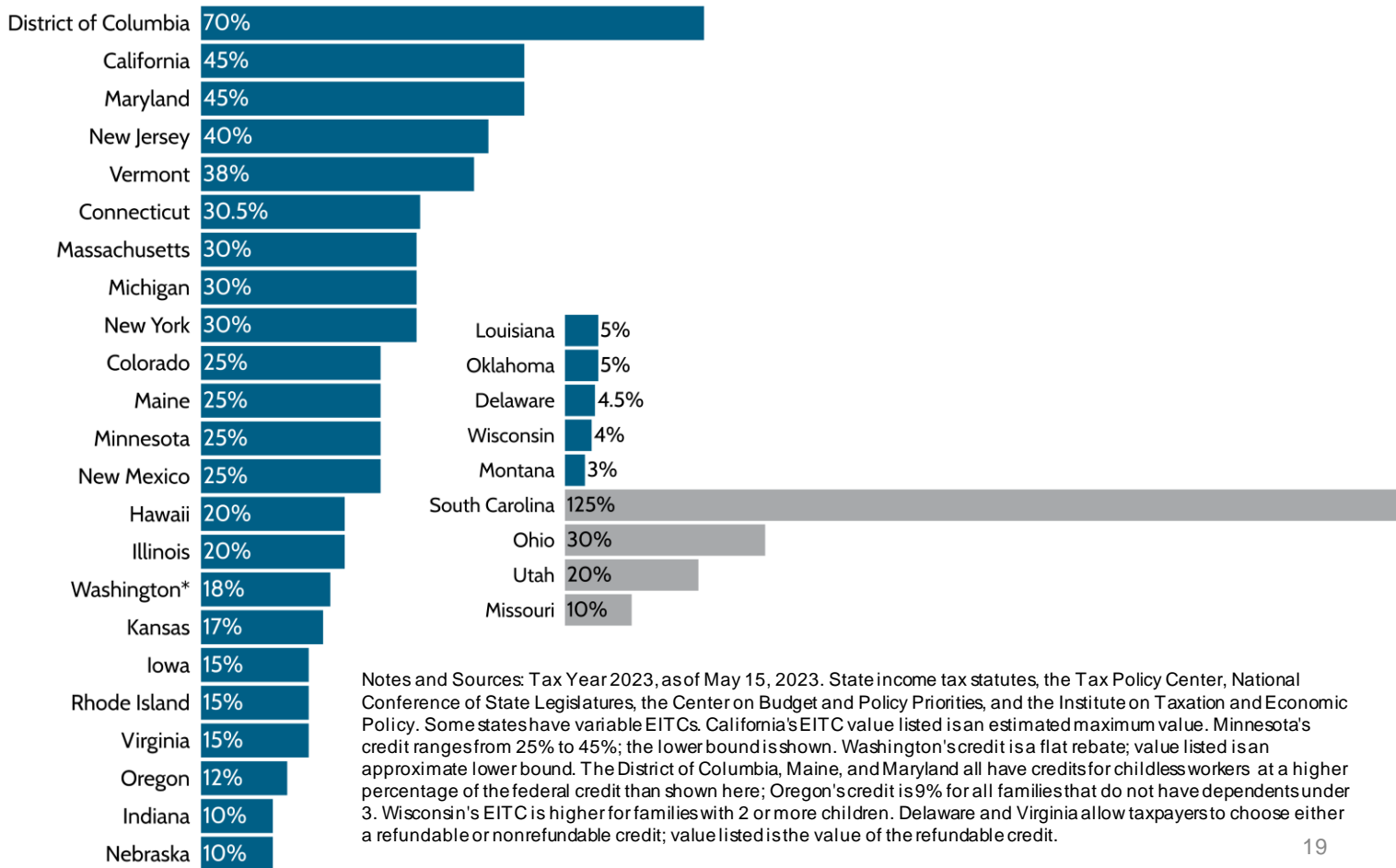


- Generosity
- Refundability
- Eligibility
- Funding (e.g., WA does not have a state income tax)



Download the State Policy
Lever Checklist

Variation Across States in State EITC Generosity and Refundability



Notes and Sources: Tax Year 2023, as of May 15, 2023. State income tax statutes, the Tax Policy Center, National Conference of State Legislatures, the Center on Budget and Policy Priorities, and the Institute on Taxation and Economic Policy. Some states have variable EITCs. California's EITC value listed is an estimated maximum value. Minnesota's credit ranges from 25% to 45%; the lower bound is shown. Washington's credit is a flat rebate; value listed is an approximate lower bound. The District of Columbia, Maine, and Maryland all have credits for childless workers at a higher percentage of the federal credit than shown here; Oregon's credit is 9% for all families that do not have dependents under 3. Wisconsin's EITC is higher for families with 2 or more children. Delaware and Virginia allow taxpayers to choose either a refundable or nonrefundable credit; value listed is the value of the refundable credit.

Variation in Expanded Eligibility to Additional Populations

Younger Tax Filers

CA CO IL ME MD MN NJ NM

8
States

ITIN Holders

CA CO DC IL ME NM OR WA

8
States

Other Populations

DC IL MA NY

4
States

As of Tax Year 2023

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