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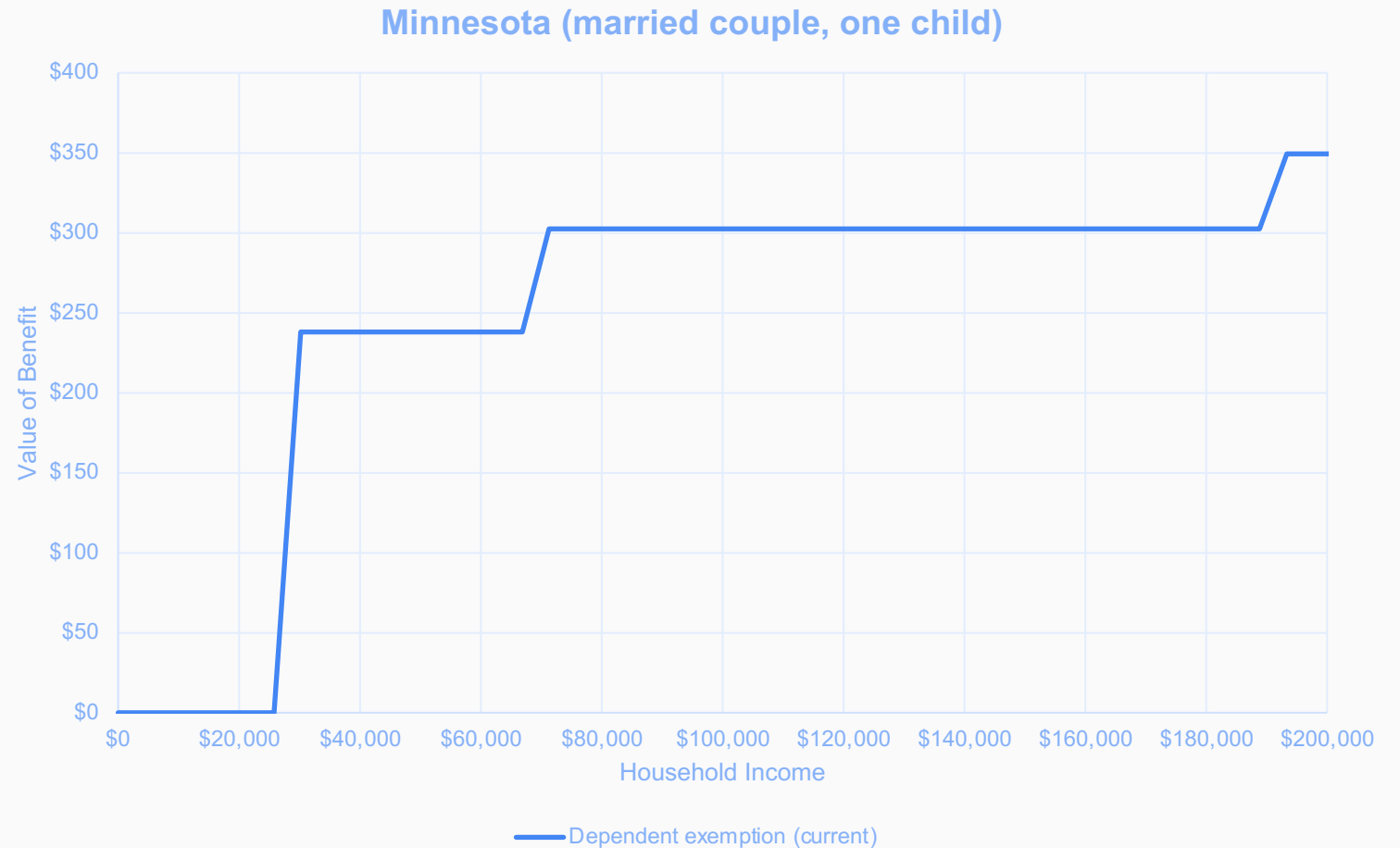
Designing state child tax credits to reduce child poverty and enable upward mobility

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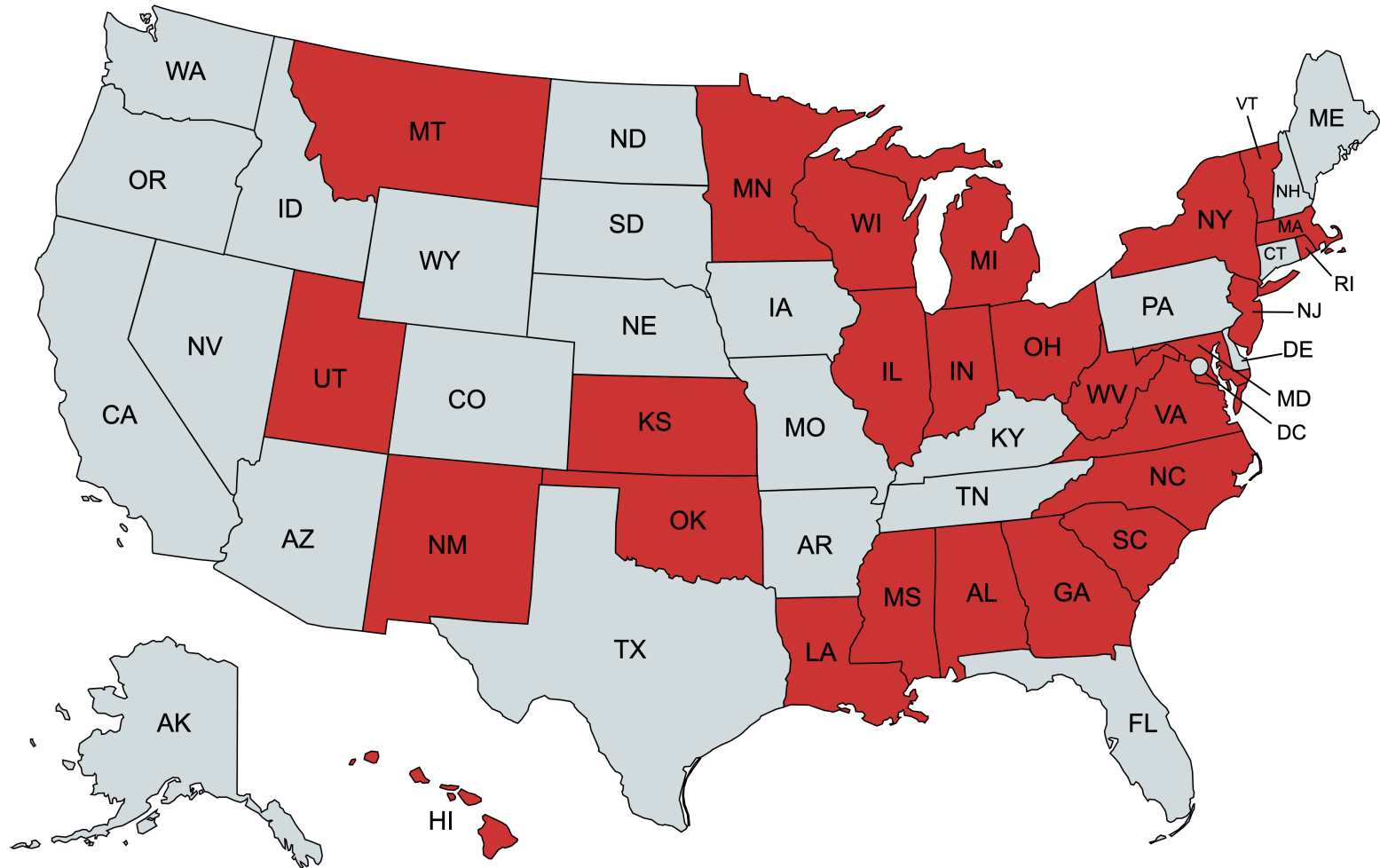
Tax exemption

- reduce the amount of income that is subject to taxation. The amount of the benefit is the amount of additional income that would otherwise be taxed at a particular rate.



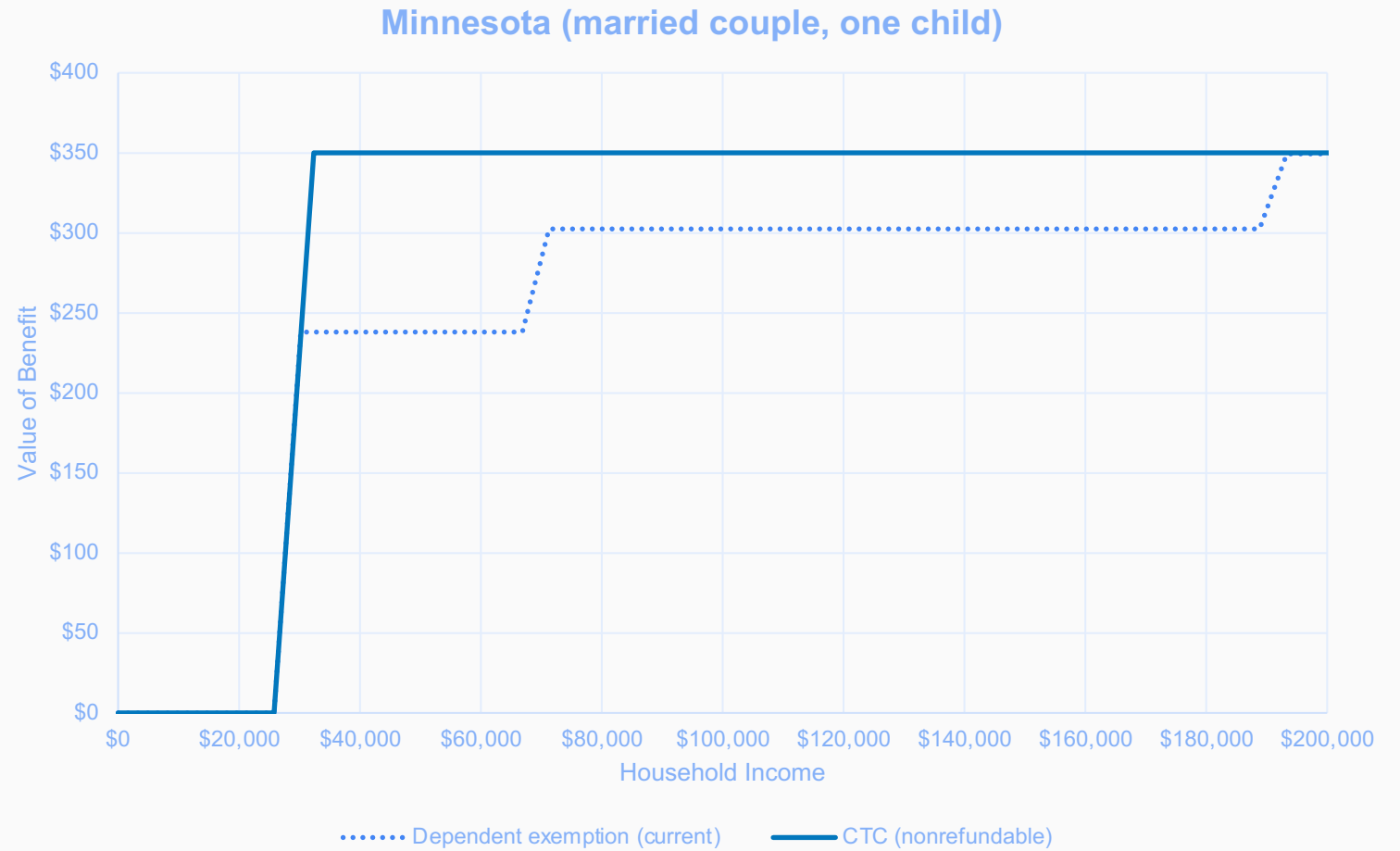
Tax exemptions

- This is the most traditional way to adjust for family size in state tax codes.



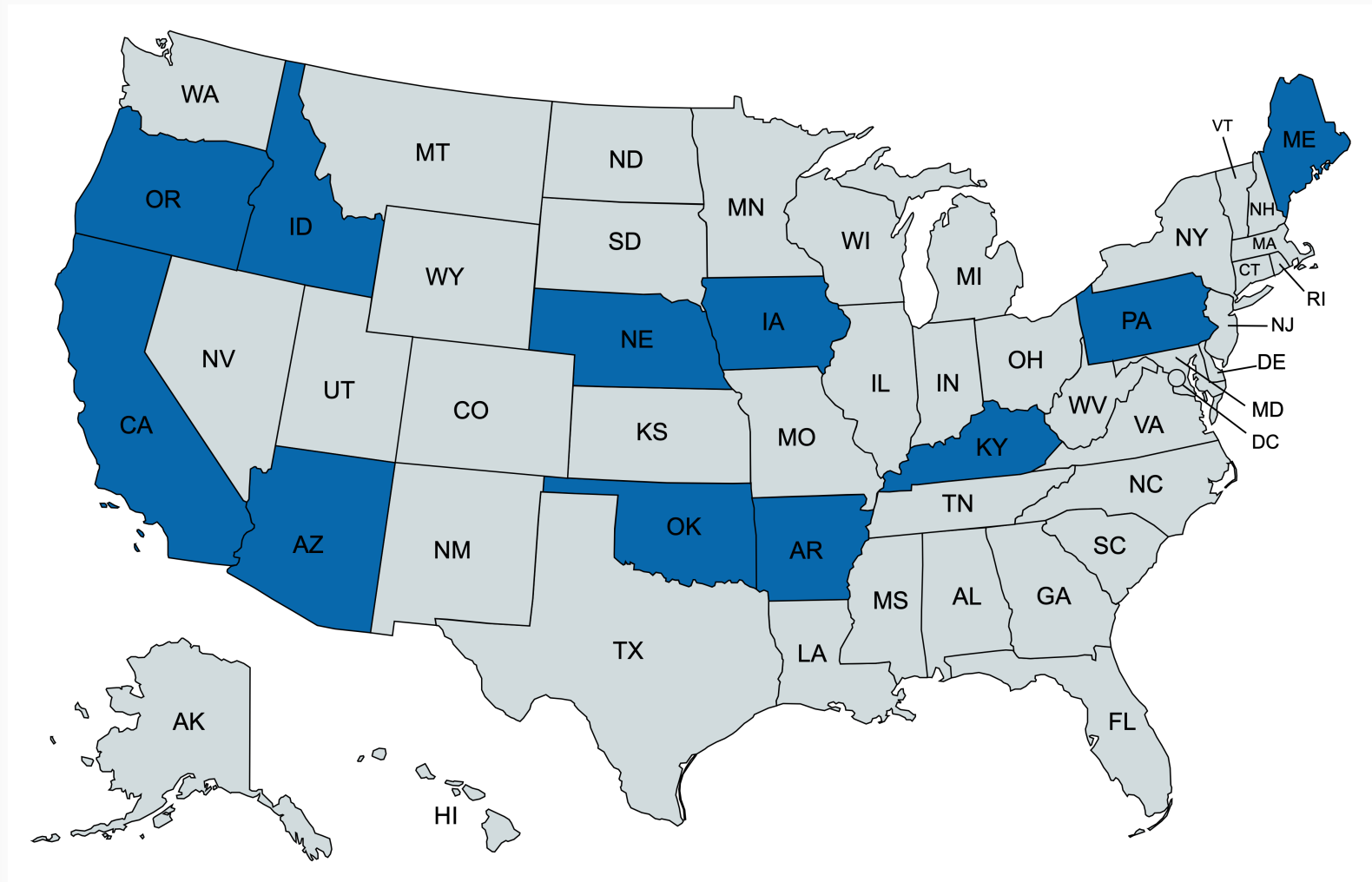
Nonrefundable tax credit

- offer a dollar-for-dollar reduction in taxes owed.



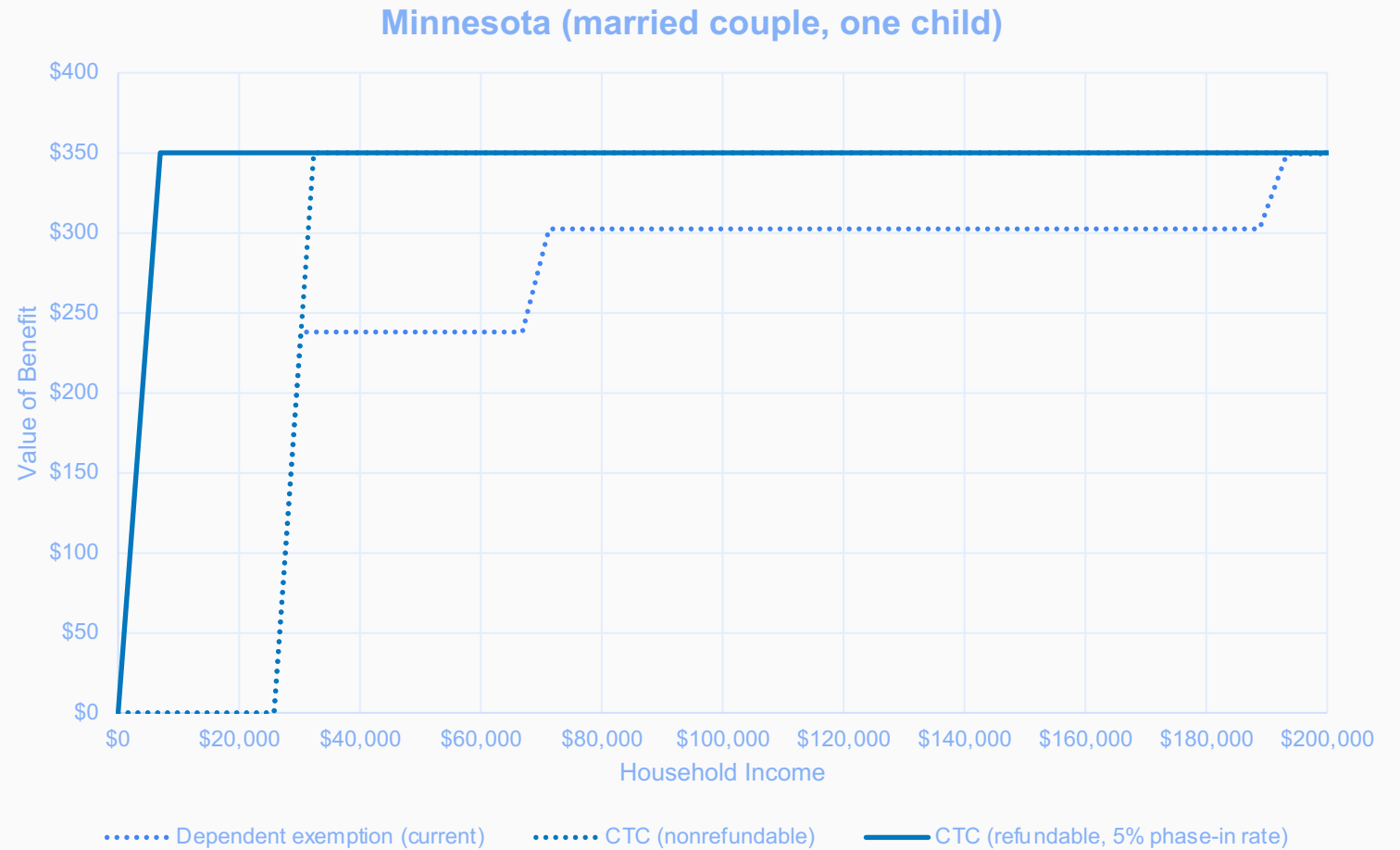
Nonrefundable tax credits

- The elimination of the federal dependent exemption in 2017 led several states to shift to nonrefundable credits.



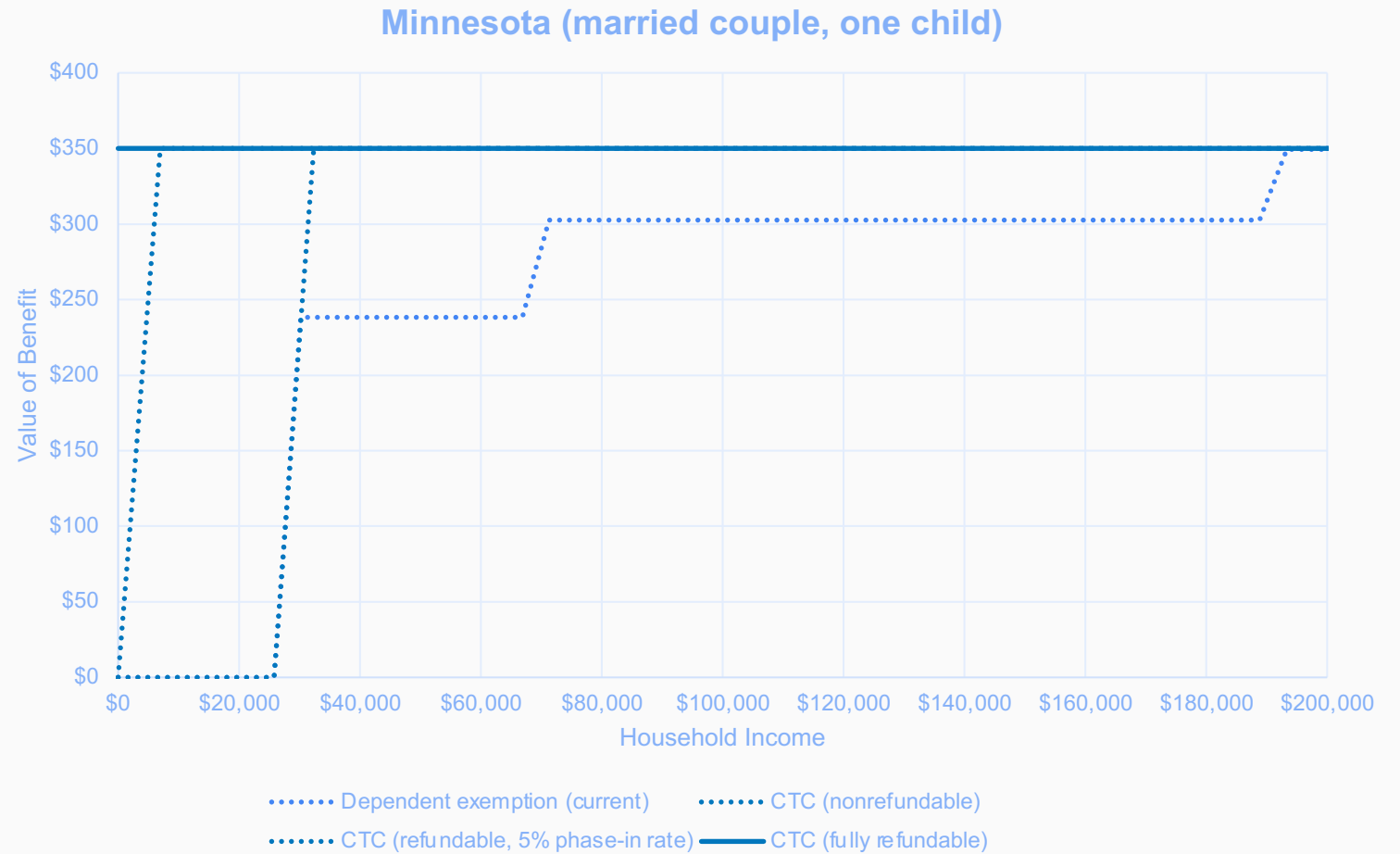
Refundable tax credit (with a phase-in)

- allow families to receive refunds over and above their income tax liability.



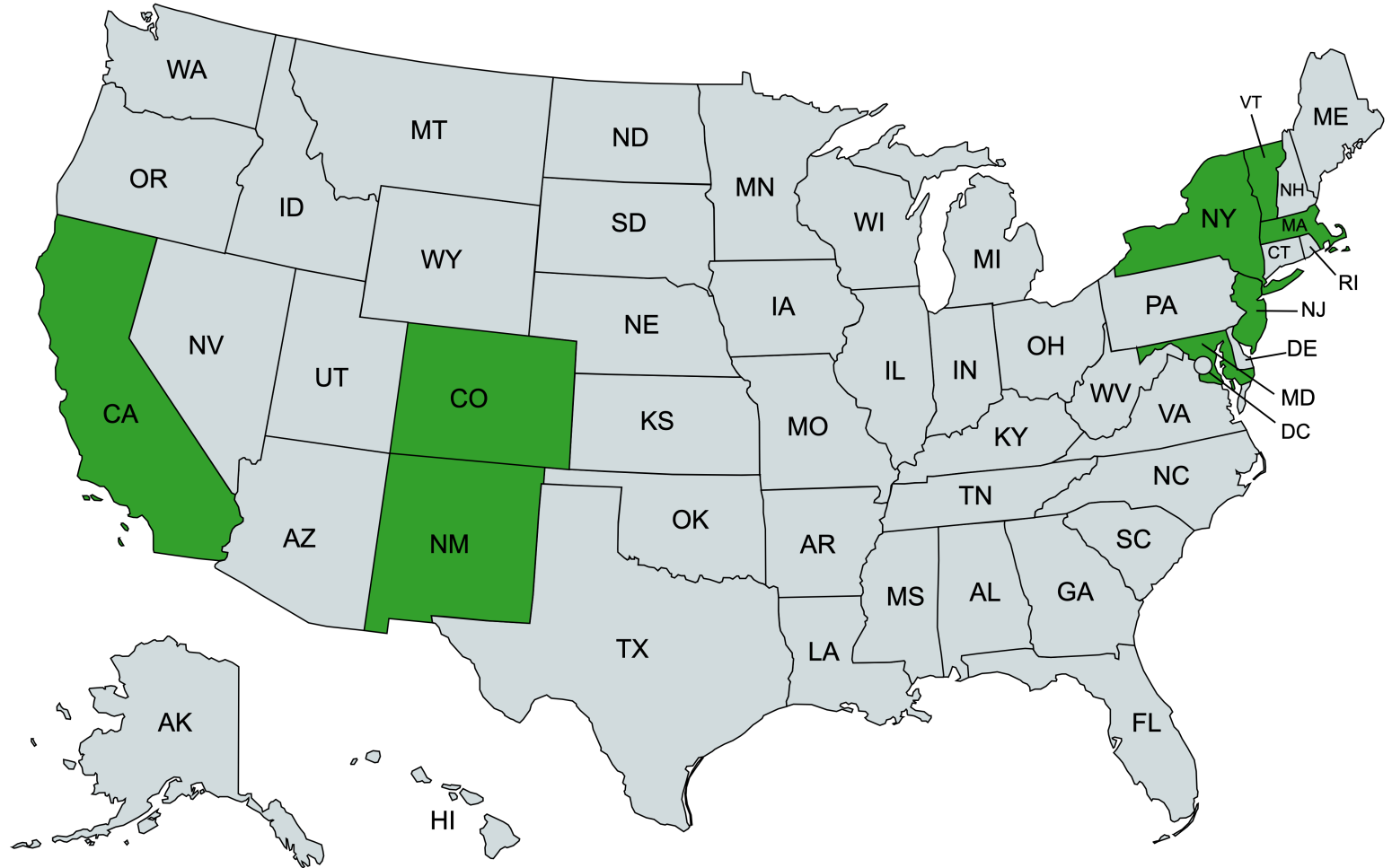
Fully refundable tax credit

- can make all families eligible for the full benefit regardless of income.



Refundable tax credits

- Several states shifted again in the wake of the 2021 changes to the federal child tax credit



Principles for reform

- 1. Child and dependent tax benefits should include as many families as possible.**
 - Make it refundable; Make it universal; No family caps.
- 2. The best means for targeting benefits is by age.**
 - More generous credits for children under six years old.
- 3. The best route for states is to convert exemptions into credits and/or consolidate existing child-related tax benefits.**
 - Convert dependent exemptions into refundable child tax credits.
 - Proportionally shrink EITC/CDCTC in conjunction with CTC expansion.

Which states are following these principles?

California, Maryland,
New Jersey, New
Mexico, Minnesota

Narrow income-testing
Exemptions untouched

New York,
Vermont

Broad income-testing
Exemptions untouched

Massachusetts,
[Maine]

Universal
Exemptions converted

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THE STATE OF OUR FAMILIES

Child and dependent tax benefits in the states

Joshua McCabe
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Read more at

<https://www.niskanencenter.org/the-state-of-our-families-child-and-dependent-tax-benefits-in-the-states/>

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The Niskanen Center is a 501(c)3 issue advocacy organization that works to change public policy through direct engagement in the policymaking process.

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