

Refundable Tax Credits: Uptake Patterns in Texas Reveal Opportunities for States to Support Families

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Federal economic security programs, such as the child tax credit (CTC) and the earned income tax credit (EITC), are effective tools for increasing available resources, improving child outcomes, and offering vital support to families facing economic insecurity.¹ Because of the evidence of their impact, tax credits are an increasingly popular strategy at the state and federal level for supporting families with low or moderate incomes.²

The federal EITC and CTC are targeted at parents and are intended, at least in part, to help alleviate the cost of raising children by reducing families' tax burdens. The EITC and CTC also provide cash refunds to families when the value of the credits exceeds the taxes they owe. Both the federal EITC and CTC require families to have income, although the temporary expansion of the federal CTC in 2021 allowed families with no income to receive the credit in 2021. To benefit from either federal credit, however, potential beneficiaries must file taxes and claim the credit on their tax return.

Estimates suggest that more than 1 in 5 eligible taxpayers do not receive the EITC.³ Similarly, during the 2021 American Rescue Plan Act's temporary expansion of the CTC, eligible families of up to 4 million children did not receive the advanced CTC payments.⁴ Historically, Hispanic families and families with low education levels have been the least likely to know about and claim the EITC and the CTC.^{5,6,7,8,9}

Difficulty navigating the tax system may contribute to missed opportunities to participate in the federal EITC and CTC programs. The tax system may impose several administrative burdens on families, such as time and learning costs associated with not having sufficient information available in multiple languages.¹⁰ These administrative burdens may be most challenging for families with lower education levels, in nontraditional living arrangements, or those who may be uncertain about their eligibility because of residency, citizenship status, or work requirements.^{11,12}

In addition to the federal credits, families in 32 states, including the District of Columbia, could claim a state EITC, and families in 13 states could claim a state CTC on their tax returns for 2023 ([for more information, please refer to our Roadmap](#)). State-level tax credits are modeled after federal credits and are also accessed through tax filing systems. Yet, state tax credits may differ from federal tax credits in the amount of the credit, whether it is refundable, and the eligibility requirements. State EITCs and CTCs are generally lower in generosity than federal credits, but several states have broader eligibility criteria—such as including filers without Social Security numbers (SSN).

In addition to variation on the availability of credits, states also vary in the adoption of different strategies to inform residents about families' eligibility for federal and state tax credits and in policies and outreach practices that address families' administrative burdens.

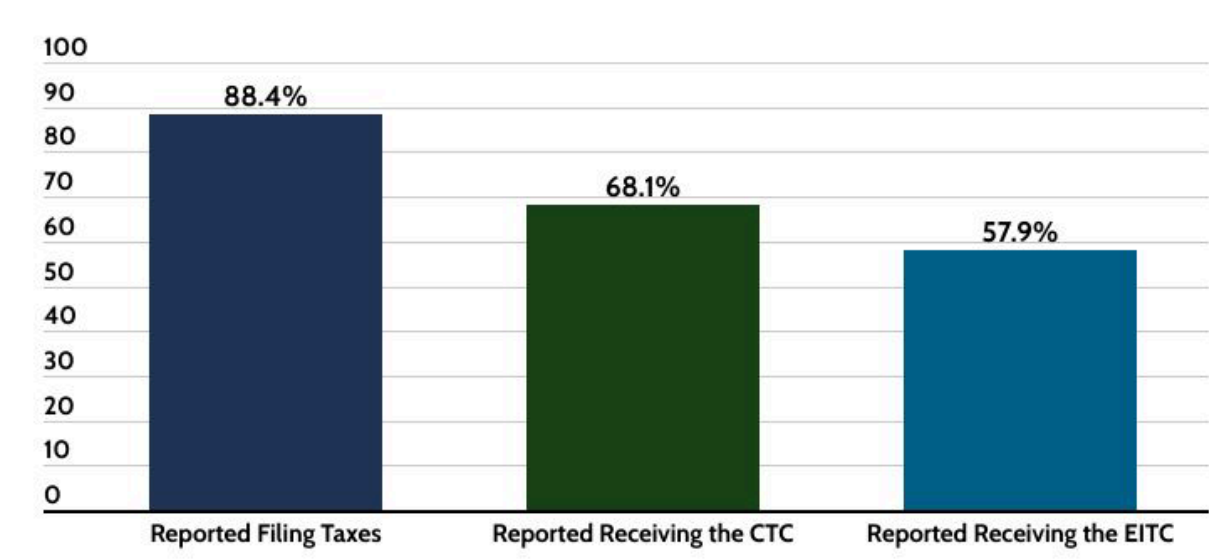
To understand the extent to which families accessed available tax credits for the 2021 tax year, the Prenatal-to-3 Policy Impact Center at Vanderbilt University surveyed 602 families participating in home visiting programs in Texas, a state with no refundable state tax credit. The majority of families surveyed had low incomes.

The findings highlight that although most families reported receiving the federal CTC and the EITC, gaps remained in families' access to federal tax credits. States and community organizations have an opportunity to increase awareness of and knowledge about tax credits. State and community support can ensure all children and families benefit from the existing federal credits and that state tax credits have the maximum impact on families as states adopt them.

Approximately 90 percent of home visiting families in Texas filed a 2021 federal tax return, and the majority of tax filers received the CTC and the EITC.

The vast majority of caregivers (88%) surveyed reported filing their tax return for the 2021 tax year. Among home visiting families, 68 percent of caregivers reported receiving the CTC, and 58 percent reported receiving the EITC (see Figure 1).

Figure 1. Reported Rates of Federal Tax Filing and Tax Credit Receipt



Source: The Family Experience Survey, The Prenatal-to-3 Policy Impact Center, November 2022. Notes: Estimates represent the proportion of families that reported their household tax practices (n=458).

Families receiving federal- and state-funded home visiting services in Texas are typically families with young children and low incomes. Therefore, most families should have been eligible for the CTC. And, given that the majority of families (91%) reported being employed or having an earned income of at least \$5,000, most should have been eligible for the EITC. Yet approximately 1 in 3 families reported not receiving the CTC, and almost half of the families reported not receiving the EITC.

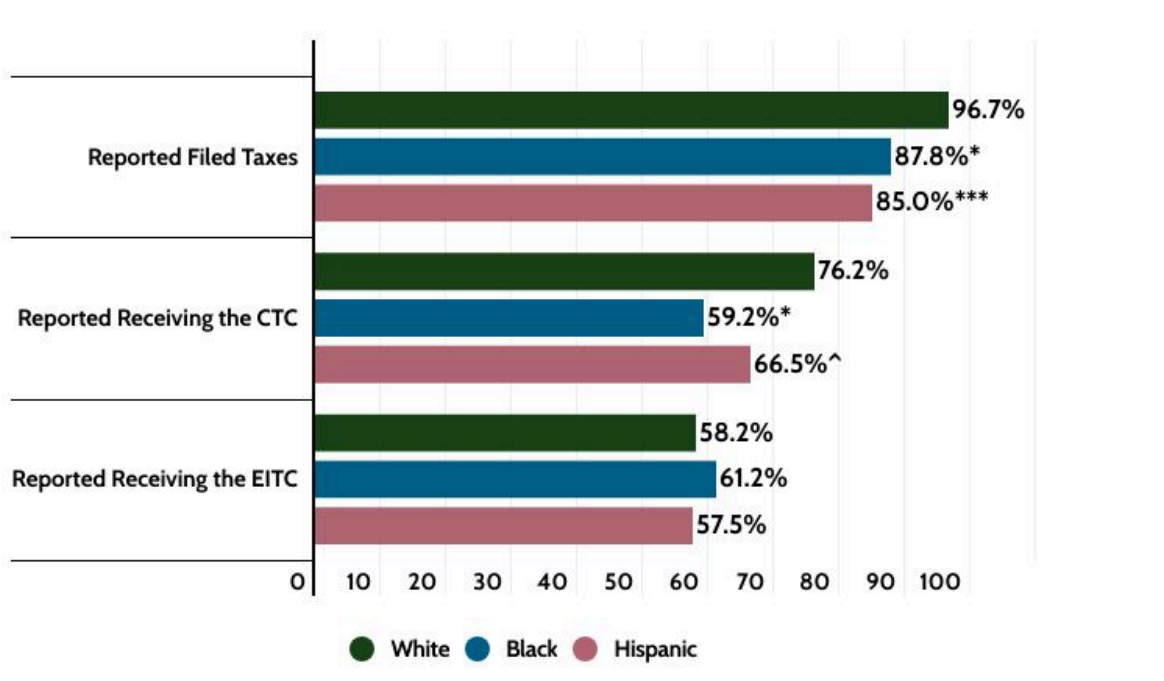
Families typically consider their tax refund as a whole—without differentiating what portion of their tax refund is derived from which federal credit.¹³ Therefore, these lower-than-expected reports of tax credit receipt raise additional questions about access for these families: Were families receiving the tax credits but unaware that these credits were part of their tax refund? Were families missing out on tax credits they were eligible for? Which families did not receive federal tax credit benefits? Were families ineligible because they did not meet federal eligibility requirements, such as having a valid SSN or an earned income?

Black and Hispanic caregivers are less likely to file their federal tax return.

Exploring patterns in tax filing and acknowledgment of tax credit receipt revealed differences across families of different racial and ethnic identities. Specifically, Black and Hispanic caregivers reported a lower tax filing rate than White caregivers, with 88 percent of Black caregivers and 85 percent of Hispanic caregivers filing a tax return, compared to 97 percent of White caregivers (see Figure 2).

Black and Hispanic caregivers also reported lower rates of CTC receipt than White caregivers. Among families that received home visiting services in Texas, just over half (59%) of Black caregivers and 67 percent of Hispanic caregivers reported receiving the CTC compared to 76 percent of White caregivers. Families of different races and ethnicities report similar levels of EITC receipt. Caregivers of different races and ethnicities also reported similar levels of employment and income, indicating that work habits likely did not drive these results about tax filing or credit receipt by race and ethnicity.

Figure 2: Reported Rates of Federal Tax Filing and Tax Credit Receipt by Race and Ethnicity



Source: The Family Experience Survey, The Prenatal-to-3 Policy Impact Center, November 2022. Notes: Estimates represent the proportion of families that reported their household tax practices (n=458). ^p<0.10, *p<0.05, **p<0.01, ***p<0.001 based on proportion tests. White families are the reference group.

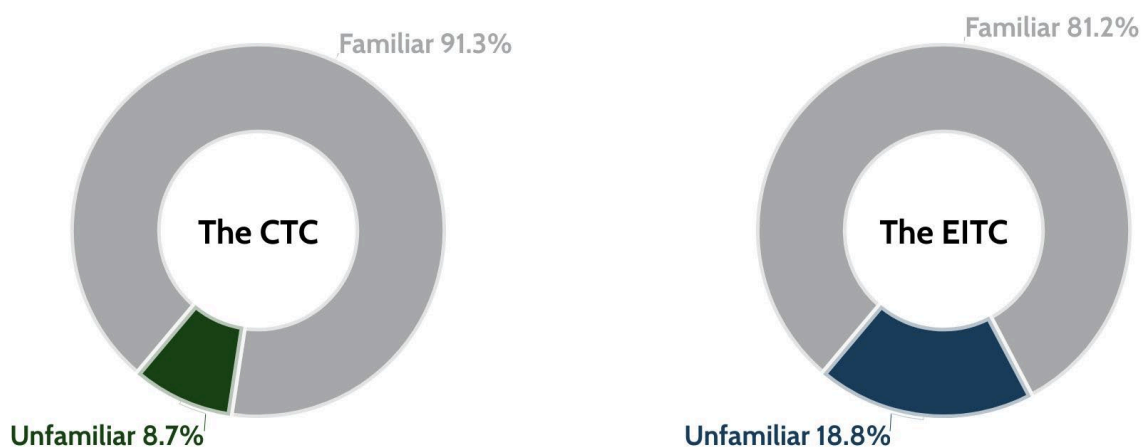
The study found that Black and Hispanic families were less likely to file taxes and report receiving the CTC, which is consistent with other studies from across the country.^{14,15,16} Income supports for families, including the federal EITC and CTC, are associated with improved outcomes for children and families. The additional income these tax credits provide may improve maternal and infant health, reduce food insecurity, and improve children's academic achievement.^{17,18}

Given that over half (55%) of caregivers disclosing their tax practices identified as Hispanic and 1 in 10 identified as Black, many Texas home visiting families may be missing out on hundreds to thousands of dollars in additional income and the benefits to family health and wellbeing associated with additional income support.¹⁹

One in ten families do not know what the CTC is, and one in five families do not know what the EITC is.

Though most caregivers were familiar with both the CTC and the EITC, 9 percent of families had never heard of the CTC, and 19 percent of families had never heard of the EITC (see Figure 3). Familiarity with the federal EITC and the CTC did not differ significantly by race and ethnicity among families receiving home visiting services in Texas.

Figure 3. Percent of Home Visiting Families Unfamiliar with Federal Tax Credits



Source: The Family Experience Survey, The Prenatal-to-3 Policy Impact Center, November 2022. Notes: Estimates represent the proportion of families that reported their household tax practices (n=458).

Although most families were aware of the EITC and the CTC and filed tax returns for the 2021 tax year, fewer families reported receiving the EITC and the CTC than expected. Many of these families may have received the EITC and CTC along with other tax refund dollars and simply not realized it. However, some families may have missed out, and families that did not file may also have missed out.

Additional outreach at the federal, state, and local levels may be needed to ensure that families access the full range of benefits they are eligible for. It is estimated that approximately 20 percent of people who qualify for the federal EITC (or 5 million people per year) do not claim it, missing out on an average of \$1,554 in benefits.²⁰ Outreach

efforts can promote credit-claiming for families that may not know they are eligible for the CTC and/or the EITC.

Conclusions & Opportunities: States can support families to learn about and access federal and state tax credits.

Among Texas families that participated in home visiting programs, which are mostly families with low incomes, approximately 9 percent of caregivers had never heard of the CTC, and 19 percent of caregivers had never heard of the EITC. Black and Hispanic caregivers were less likely than White caregivers to report filing their taxes and receiving the federal CTC. In our survey sample, 32 percent of families reported that they *did not* receive the CTC, and 53 percent reported that they *did not* receive the EITC.

These results suggest knowledge and access gaps among families. For example, some families may not know they can get a cash refund if they file taxes and claim the credit, whereas others without a SSN may be ineligible for these tax credits.

The federal EITC and the CTC are effective anti-poverty programs for US families with children. Increased household income from these federal tax credits is associated with improved child educational and health outcomes.^{21,22} When families have access to these tax credits, they are better able to provide for their children's basic needs and invest in their education and wellbeing. States are increasingly adopting or expanding state EITCs and CTCs to leverage this opportunity to support families with young children.

Overall, this study highlights opportunities for states and communities to take action to ensure families have access to both federal and state tax credits by providing information about tax credits, supporting families to file their taxes, and, when implementing their own tax credit programs, states can set wide eligibility criteria to maximize access, specifically for immigrant families.

1. Awareness Campaigns

States such as Colorado have created awareness campaigns to encourage tax filing and increase the uptake of refundable tax credits, such as the EITC and the CTC.^{23,24} Other states, including California, Illinois, Maryland, New Jersey, and Texas, require employers to provide information about the EITC to their employees.²⁵ Additional efforts, though, can support individuals who are not employed or who are in informal employment settings.

2. Tax Prep Support

Investing in systems that assist families in preparing their tax returns could also enable families to file taxes and claim credits. Maryland and Washington fund community organizations to provide tax help services.^{26,27} The IRS's new Direct File pilot, (in which Texas is participating), which began in 2023, may also help families access the tax system.²⁸ States can provide tax prep support to ensure residents are receiving all the federal and/or state credits they are eligible for.

3. Include Immigrant and Mixed-Status Families in State Credit Eligibility

In the US, immigrant and mixed-status families have little or no access to anti-poverty policies that support other families with low incomes.²⁹ Even when they themselves are US citizens or legal immigrants, children in immigrant families are often ineligible for safety net programs such as the EITC and the CTC because of their parents' immigration status.³⁰

Because federal tax credits require SSNs (for all claimed family members on the EITC and for any children claimed for the CTC), immigrant and mixed-status families often cannot access credits they would otherwise be eligible for (i.e., based on income and work hours).

States are demonstrating opportunities for widening access to state-level credits by setting eligibility criteria that maximize opportunities for immigrant families to benefit. States such as Vermont have passed legislation to give all qualifying residents access to the state's EITC and CTC regardless of whether they have a SSN or an Individual Taxpayer Identification Number.³¹

Providing cash refunds to families with low or moderate incomes is an evidence-based solution to supporting positive child and family outcomes, but many families miss out on these benefits. States can take action, however, by supporting families' awareness of tax credits, supporting tax filing, and, when they implement state-level credits, setting criteria to maximize participation.

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