Reduce Child and Family Poverty by Strengthening Working Family Tax Credits

New York State has the opportunity to lead the nation in reducing poverty by passing the most expansive set of refundable tax credits of any state in the country.

2020-21 Executive Budget Recommendations

By orienting the state's tax code to benefit low-income families, children, and young adults, New York State can lead the nation and provide a roadmap for effective poverty reduction efforts.

This agenda should include a plan to:

1. **Expand and strengthen the Empire State Child Credit**
   a. Establish a new early childhood tax credit of up to $1,000 per child
   b. Fully phase-in credit at $1
   c. Expand the existing credit to up to $500 for children 4-17

2. **Increase and Expand the Earned Income Tax Credit**
   a. Expand the state's match from 30% to 45% of the federal program, estimated to provide meaningful material support to more than 1.5 million households
   b. Extend the state EITC to cover childless workers under age 25

3. **Improve the structure of working family tax credits**
   a. Allow quarterly payments option
   b. Make the EITC available to more immigrant New Yorkers by adjusting filing requirements to mimic those of the Empire State Child Credit

There is a growing understanding around the nation and the world about the outsized positive benefits income supports can have for children's well-being. This understanding has led many state and federal lawmakers to advance proposals to supplement the income of low-income families and individuals through child allowances or refundable tax credits. Driving this emerging discussion is the strong evidence that such policies – particularly child allowances – long in effect in many peer nations, have dramatically reduced child poverty. For instance, the child poverty rate in most European countries is less than half that found in the United States.[1]

New York State is overdue to take aggressive, innovative steps to reduce the number of children growing up in poverty. These reforms would provide immediate economic relief to thousands of children and families and set an example for the rest of the nation.

Background

More than 20%, or approximately 855,000 New York children live below the federal poverty threshold, (including approximately 253,000 children under age five), with that rate rising to nearly one in three among children of color.[2] Children under age five are most likely to experience poverty and are most vulnerable to its impacts. The consequences of poverty for young children include negative effects to physical and mental health, educational achievement, and diminished lifetime earnings. Many of our upstate cities have child poverty rates that hover around 50%.[3] The vast majority of children living in poor families – 67% – have at least one employed parent.[4] These numbers are staggering and shameful, particularly in a state with a strong economy. New York State boasts the 14th strongest economy in the nation, yet we rank 39th in child economic well-being.[5,6]

Another group that is over-represented among New Yorkers who live in poverty are young adults under age 25, 20% of whom live in poverty, far exceeding the 14% poverty rate for the state overall.

In fact, the problems of income insecurity among New York children, families, and young adults is much greater than the poverty numbers would suggest. United Way of New York's ALICE Project has developed a measure to capture a largely hidden population: hardworking households earning more than the Federal Poverty Level, but not enough to afford the basic cost of living. United Way calls this population ALICE: Asset Limited, Income Constrained, Employed. While more than 14% of New York households fall below the poverty level, an additional 31% of New York households fall below the ALICE Threshold. Those percentages are higher for families of color, and, as noted above, among families with children and young adults.

Expand and Strengthen the Empire State Child Credit

The Empire State Child Credit currently provides up to $330 in tax relief to parents for each child, *if those children are at least 4 years old*. The credit is targeted to low-income working parents. Single parents earning more than $75,000 and couples earning more than $110,000 have the value of the credit phased out or eliminated, based on the number of qualifying children and their income. The current credit does not support new families or growing families, because babies and toddlers are inexplicably excluded from the credit. It is estimated that 590,384 young children, from birth to less than age four, live in families whose income is low enough to qualify for this credit, but are excluded because they are too young. It also excludes families in deep poverty who are likely in the most dire economic need.

To address these shortcomings, New York should strengthen the Empire State Child Credit by **removing the credit's phase-in, establishing a $1,000 young child credit and expanding the existing credit to $500 for children 4 and older.**

Increase, Expand and Strengthen New York State's Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is an important and effective tool that reduces poverty, increases workforce participation, increases financial security, leads to better educational outcomes for children, and improves overall child and parent well-being. New York currently provides a 30% match to whatever amount an individual receives from their federal tax return. Along with SNAP, the EITC is the most widely used form of government support for low-income families in the state.

New York should **increase the state's match of the federal EITC from 30% to 45%**, giving our state the most expansive EITC policy in the nation. The state should also **expand New York's EITC to cover young childless adults.**

Improve the Structure of Working Family Tax Credits

In addition to expanding and strengthening the EITC and Empire State Child Credit, New York State should implement two reforms that will make a real difference in the lives of struggling families.

Allow families with dependent children to **receive a portion of their EITC and Empire State Child Credit in quarterly advance payments** throughout the year. Giving families this option will smooth a family's income throughout the year, helping them with budgeting and unexpected expenses.

Make the EITC available to immigrant New Yorkers by adjusting filing requirements to mimic those of the Empire State Child Credit. Doing so will help immigrant New Yorkers become more economically secure and able to provide for themselves and their families.

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[1] See https://www.vox.com/future-perfect/2019/4/10/18302183/tax-cut-democrats-earned-income-tax-credit-child-allowance

[2] See The State of New York's Children: Data Book. Schuyler Center for Analysis and Advocacy. January 2019. https://www.scaany.org/wp-content/uploads/2019/01/State-of-NY-Children-Data-Book-2019.pdf

[3] U.S. Census Bureau. (2017). Children characteristics: 2012-2017 American Community Survey 5-Year Estimates. https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=CF. (Buffalo - 47.2%, Rochester - 51.9%, Syracuse - 46.7%)

[4] See The State of New York's Children: Data Book. Schuyler Center for Analysis and Advocacy. January 2019. https://www.scaany.org/wp-content/uploads/2019/01/State-of-NY-Children-Data-Book-2019.pdf

[5] Andy Kierscz, Every US State Economy Ranked from Best to Worst. *Business Insider*. (March 15, 2018). https://www.businessinsider.com/state-economy-ranking-q1-2018-2;

[6] Kids Count Data Center: A Project of the The Annie E. Casey Foundation. New York: Kids Count Overall Rank, and Kids Count Economic Well-Being Rank. (2018). https://datacenter.kidscount.org/data/tables/9981-kids-count-overall-rank?loc=34&loct=2#detailed/2/34/false/37/any/19338; https://datacenter.kidscount.org/data/tables/7246-economic-well-being-rank?loc=34&loct=2#detailed/2/34/false/37,871,870,573,869,36,868/any/14340