HELP WORKING FAMILIES MAKE ENDS MEET: ESTABLISH OR IMPROVE STATE TAX CREDITS FOR LOW-INCOME FAMILIES

The Problem
It’s tough to support a family in today’s economy. While families across the country face rising costs for child and dependent care, wages have stagnated for most working people. It’s especially tough for women, who face a wage gap that has not budged in over a decade and make up the vast majority of single parents. Three in ten of the women who work in low-wage jobs are mothers of children under 18, and 11 percent are mothers of children under four.1 More than one in three single-mother families live in poverty.2 Yet, in far too many states, low- and middle-income families pay a greater share of their income in taxes than wealthy families.3 This is only worsened by the Tax Cuts and Jobs Act (TCJA), which prioritized tax cuts for big corporations and the wealthy instead of improving federal tax credits helping lower-income families.

The Solution
Tax credits can help keep millions of families out of poverty and alleviate regressive state tax codes. While increasing the minimum wage and direct investments in child care, health care, education, food assistance, housing assistance, and other vital programs provide the most support for families, state tax credits can reduce the tax burden some families face and, in some instances, provide a refund.

Basic Elements of the Solution
• Build upon the success of federal family tax credits by offering a state Earned Income Tax Credit (EITC), Child and Dependent Care Tax Credit (CDCTC), and Child Tax Credit (CTC). Ensure these credits are fully refundable so that low-income families with little or no state income tax liability can take full advantage of the credit.
• Base a state EITC on a percentage of the federal EITC and provide additional help for low-income, childless workers who receive a much smaller federal EITC than workers with children.
• When designing or improving a state CDCTC, offer a generous percentage of the federal CDCTC or set a higher, more realistic expense limit for the state credit.

For help crafting legislation, talking points, fact sheets, and for state-specific policy research and data, please contact us at playbook@nwlc.org.
• Ensure a state CTC is refundable from the first dollar of earnings and allow workers to claim the CTC on behalf of children with Individual Tax Identification Numbers (ITINs). This will help more families who cannot access the federal CTC benefit from a state CTC.
• Offer an additional Young Child Tax Credit to provide more assistance to families with young children who often receive smaller child tax credit amounts.
• Offer advanced payments to help parents pay for expenses in real time throughout the year, rather than having to wait for an annual tax refund.

Talking Points on the Solution
• State tax credits, especially those that provide a refund, can keep more families out of poverty and improve children’s health and education outcomes. Tax credits also boost the economy by putting money in the pockets of working families, who are more likely to spend their money back in the local economy.
• The EITC not only keeps millions of families out of poverty, but has been shown to incentivize and support work. Research shows that the EITC does more to support work than work requirement penalties in anti-poverty programs or a strong economy. More than half of states have an EITC, and 23 states and the District of Columbia offer a refundable credit.
• State CDCTCs can provide some help to families struggling to pay for the child care they need to be able to work. More than half of states offer some type of child and dependent care tax provision (a credit or a deduction), and 12 states, from Nebraska to New York, offer refundable credits.
• CTCs can help reduce child poverty rates. In 2017, the national child poverty rate was 17 percent, and some states have much higher rates. Refundable state CTCs target benefits to low-income families with children and can also alleviate poverty.
• Families with infants and toddlers face high costs associated with their care. An additional Young Child Tax Credit would help these families meet the higher costs of raising very young children.