STATE PLAY BOOK

FOR GENDER JUSTICE

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POLICY BRIEF

NATIONAL WOMEN'S LAW CENTER
Justice for Her. Justice for All.

BOOST WORKING FAMILIES' INCOMES: ESTABLISH OR IMPROVE STATE TAX CREDITS

THE PROBLEM

As the COVID-19 pandemic continues and the cost of living increases, women continue to face impossible choices. Many women who left the labor force in the pandemic have not yet returned, pandemic-related relief has ended, and costs are rising. Millions of women and families are still struggling to make ends meet. By boosting working women's incomes, state tax credits that wipe out tax liability and provide cash refunds help women afford necessities, ensure family well-being, and help families afford the higher costs they are facing. Refundable tax credits are key to rebuilding an economy that works for everyone and helping families make ends meet in the face of rising costs and inflation.

THE SOLUTION

In far too many states, low- and middle-income families pay a greater share of their income in taxes than wealthy families. In fact, most state tax codes exacerbate economic inequality for communities of color. Refundable tax credits put much-needed cash back in families' pockets, mitigate the impact of rising costs and inflation, keep families out of poverty, and alleviate regressive state tax codes.

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 refundable so that families with low incomes 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. In addition, allow families who file their taxes using Individual Tax Identification Numbers (ITINs) to claim EITCs.
- When designing or improving a state CDCTC, offer a generous percentage of the federal CDCTC but allow families to claim state credits even if their incomes were too low to benefit from the federal credit.
- Ensure a state CTC is refundable from the first dollar of earnings and allow workers to claim the CTC for children with 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.

TALKING POINTS ON THE SOLUTION

- State tax credits, especially those that provide a refund, can increase family incomes—supporting work and improving family well-being, children's health, and future educational and employment outcomes. The boost in income is especially needed as families face rising costs and the effects of inflation.

- Tax credits also boost the economy by putting money in the pockets of working families, who are likely to spend it in their local economy.
- Thirty-one states and the District of Columbia provide EITCs (which are refundable in all but six states). Six states allow tax filers with ITINs to claim their EITC.
- State CDCTCs can provide some help to families struggling to pay for the child care they need to work. More than half of states offer some type of child and dependent care tax provision (a credit or a deduction), and 15 states, from Nebraska to New York, offer refundable credits.
- States have an opportunity to help reduce child poverty by enacting state-level CTCs. In recent years, more states have introduced legislation to create state-level CTCs, and the temporary expansion of the federal CTC under the American Rescue Plan underscored the effectiveness of robust CTCs in boosting family economic security.
- 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.