

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

## THE PROBLEM

As the cost of living increases and the economic fallout from the COVID-19 pandemic continues, women continue to face impossible choices. Women still lag far behind in labor force growth compared to men since the pandemic.\* 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.
- **Eleven states** provide CTCs (which are refundable in all but three states). **Six states** allow tax filers to claim children with ITINs for their CTC.
- **Thirty-one states** and the District of Columbia provide EITCs (which are refundable in all but five states). **Nine 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.

\*NWLC calculations using BLS, "Employment Status of the Civilian Population by Sex and Age," Table A-1 in October 2023 Employment Situation Summary (Washington, DC: November 3, 2023), <https://www.bls.gov/news.release/empsit.t01.htm>. Historical data available at <https://www.bls.gov/webapps/legacy/cpsatab1.htm>.