Reworking New York State's Family Tax Credits

Expanding the Empire State Child Credit and the Earned Income Tax Credit Will Help Move Families and Children Out of Poverty

Presented by the Fiscal Policy Institute, the Schuyler Center for Analysis and Advocacy, and the Children's Agenda

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More than one in five, or 803,000 New York children live in poverty; with that rate rising to nearly one in three among children of color.[1,2] And these numbers are not new. New York's child poverty rate has hovered between 19 and 23 percent since 2008. Another group that experiences poverty at high rates is young adults – ages 18 through 24. Twenty percent, or 326,000 of these young NY adults live below the poverty level.[3]

The human costs of child poverty are staggering. Experiencing poverty as a child – even for short stints – can impair brain development, physical and mental health, and academic achievement, and increase the possibility of child welfare involvement. And the impacts can last a lifetime. Childhood poverty is the single best predictor of adult poverty.

Child poverty also imposes extraordinary economic costs to the state. A report just issued by the National Academies of Sciences, Engineering, and Medicine estimates that child poverty costs the nation $800 billion to $1.1 trillion annually in reduced adult productivity, increased costs of crime, and health expenditures associated with children growing up in poor families.[4]

And yet this Executive Budget – like nearly every Executive and Enacted budget in the last decade – contains no bold investments in policies proven to reduce child, family and young adult poverty.

There is still time for New York to take real steps this year toward reducing child and young adult poverty.

The Fiscal Policy Institute, the Schuyler Center for Analysis and Advocacy, and the Children's Agenda urge the State to immediately invest in low-income families, because the long-term economic and social benefits for children and society outweigh the initial cost of the investments. Specifically, we support the following three approaches:

1. End the exclusion of young children from the Empire State Child Credit (ESCC) by extending the credit to children under the age of 4, and then doubling the value of the credit for these young children.
2. Enhance the Earned Income Tax Credit (EITC) by raising the State percentage of the Federal credit to 35 or 45 percent from the current 30 percent.
3. Expand the EITC to childless and independent youth workers under the age of 25.

Benefits of Investing in Families and Young Adults

Investing in families with young children improves outcomes for a lifetime.

Modest income transfers to low-income families can yield tremendous benefits for children and their families, including improved physical, emotional and behavioral health, higher educational attainment and increased future earnings.[5,6] The benefits are particularly significant – and most acutely needed – in families with young children. This is the case because families with young children face poverty at greater rates than other families.[7] In fact, the birth of a child is the leading trigger of "poverty spells" experienced by families.[8] In addition, stress and hunger can impair brain development, which is most rapid when children are very young, and can lead to lifelong deficits.[9] Strengthening family economic security improves the lives not only for the current generation of children, but the next, because poor children are much more likely to grow up to be poor adults.[10]

Inexplicably, New York's Empire State Child Credit – created to offset the high costs of raising children – does not extend to children under age four, precisely when children are most apt to live in poverty and are most vulnerable to its devastating effects. Expanding the Empire State Child Credit to cover children from birth to age 4, and bolstering the credit for the state's youngest, would support the growing body of research establishing how critical the early years are and how investments in young children pay dividends for a lifetime. It would also complement and build upon the steps the State has already made to target investment in our youngest New Yorkers by implementing its path-breaking First 1,000 Days on Medicaid initiative. Further, because the Empire State Child Credit is one of a very few supports available to many hard-working immigrant families – particularly now that they are ineligible for the federal child tax credit – it is critical for these families that their youngest children are covered.

Investing in young adults increases engagement in the workforce and long-term economic stability.

Young adults ages 18-24 are often struggling to gain their footing in the workforce and build a nest egg for themselves. And yet, they are excluded from the federal and state EITC. As a result, this group is often taxed into poverty.[11] The poverty rate for young New York adults is 20%, far exceeding the 14% poverty rate for New York State overall.[12] Many young adults face unemployment or underemployment paired with hefty debt, thus benefitting from a tax credit.

The Empire State Child Credit and the Earned Income Tax Credit encourage work and family self-sufficiency.

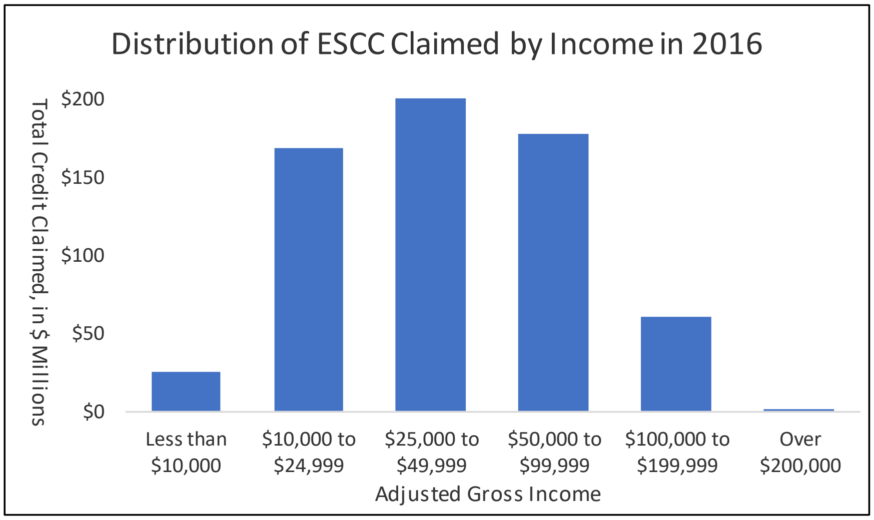
Nearly one quarter of all of New York's children live in poverty, and that percentage is significantly higher among children of color and is concentrated in some communities. Most New York children in poor families – 65% – have at least one parent who is employed at least part-time.[13] Working family tax credits, like the Empire State Child Credit and the Earned Income Tax Credit, encourage parents to work because they phase in as family income increases. Strengthening family tax credits also complements the $15 minimum wage increase enacted a few years ago because it boosts income, widens the path to the middle class, and reduces the gap between high- and low-income households.[14]

The Empire State Child Credit

Current Law

This credit provides up to $330 to parents for each child, *if those children are at least 4 years old*. The credit is means-tested, so 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.

In 2016, 1,438,020 families claimed the Empire State Child Credit, and they received $633.3 million to support their children's welfare. The average credit provided to families was $440.[15]



The current credit does not support new families or growing families, because babies and toddlers are 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. Based on a New York State child poverty rate of 24 percent,[16] it is estimated that ***220,873 children living in poverty, under the age of four, are excluded from this credit*.**[17] This means that there are more poverty-stricken kids excluded from this credit than the entire population of New York's third largest city, Rochester. Excluding over 14 percent of all the Empire State's children, and 22 percent of children in poverty, from the Empire State Child Credit is not economically sound or compassionate public policy.

Proposed Law

Eliminating the loophole that prevents new and growing families from receiving the ESCC would cost the State approximately $195 million, but this tax expenditure would be quickly returned to the state economy as young families purchased essentials for their kids, many of whom are in poverty.

Doubling the maximum Empire State Child Credit for children under the age of four, as **A.1222** by Assembly member Ellen Jaffee proposes, would increase state tax expenditures by $390 million. Enacting this law would make New York State the first state in the nation to have an enhanced young child tax credit, putting resources in the hands of working families at the time when most families need it most – when they are raising young children.

The Earned Income Tax Credit

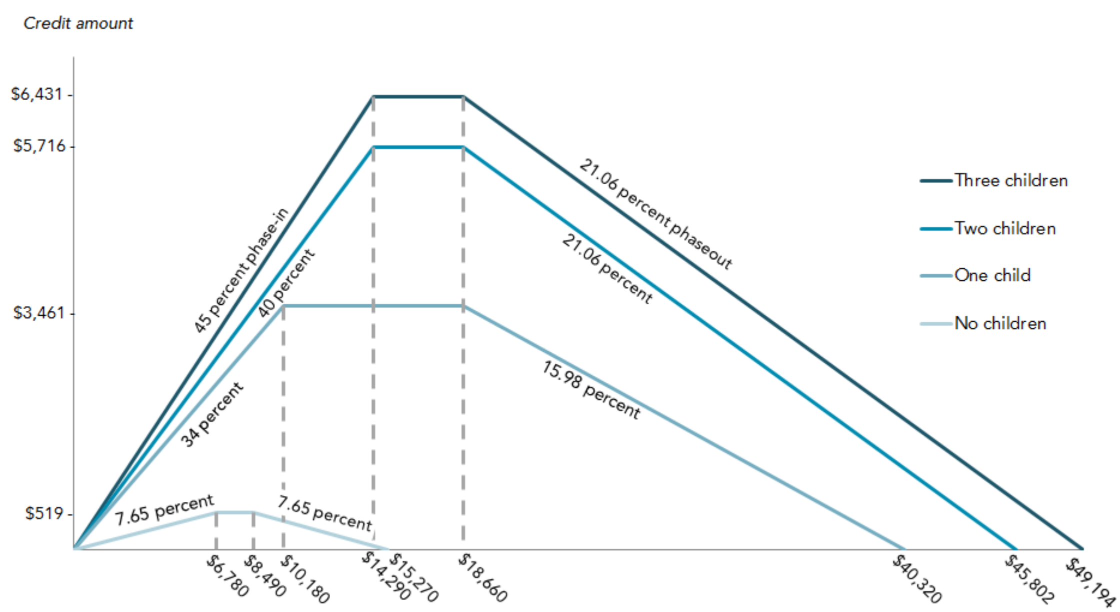
Current Law

In New York State, taxpayers receive 30 percent of the Federal EITC. The Federal credit schedule for single or head of household personal income tax filers is below. If one does not have children, one must be at least 25 years old to receive the federal and the state credit. If one has children, the value of the credit increases as the number of kids one is raising increases, but the credit does not increase if one has more than three kids.

FIGURE 1

Earned Income Tax Credit

2018



Source: Urban-Brookings Tax Policy Center (2018). Internal Revenue Procedure 2018-18, Internal Revenue Service.
Notes: Assumes all income comes from earnings. Amounts are for taxpayers filing a single or head-of-household tax return. For married couples filing a joint tax return, the credit begins to phase out at income $5,690 higher than shown.

See endnote [18].

NYS EITC History

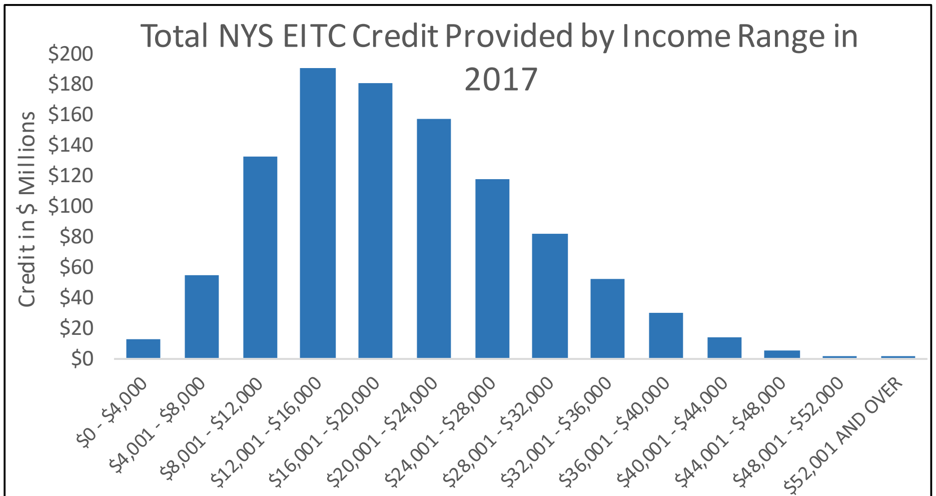
Legislative History of the NYS Earned Income Tax Credit	
Beginning Year Rate Effective	Applicable Percentage of Federal EITC
1994	7.5%
1995	10.0%
1996	20.0%
2000	22.5%
2001	25.0%
2002	27.5%
2003	30.0%

After several EITC increases during the Pataki administration, the State has not increased the proportion of the Federal credit it provides low-income families since 2003.[19]

Current Fiscal Impact

In 2017, the most recent year that data is available, the state provided 1.5 million tax filers, that were raising approximately 1.8 million children, $1.035 billion in refundable tax credits.[20]

- 198,817 taxpayers earning between $4,000 and $8,000 claimed an average credit of $275 for a total of $54 million in credits.
- 150,156 taxpayers earning between $16,000 and $20,000 claimed an average credit of $1,208 for a total of $181.3 million in credits.
- 107,501 taxpayers earning between $28,000 and $32,000 claimed an average credit of $762 for a total of $81.9 million in credits.
- 9,858 taxpayers earning between $48,000 and $52,000 claimed an average credit of $155 for a total of $1.5 million in credits.



In 2017, NYS provided $1.035 billion in EITC credit to 1,548,212 taxpayers

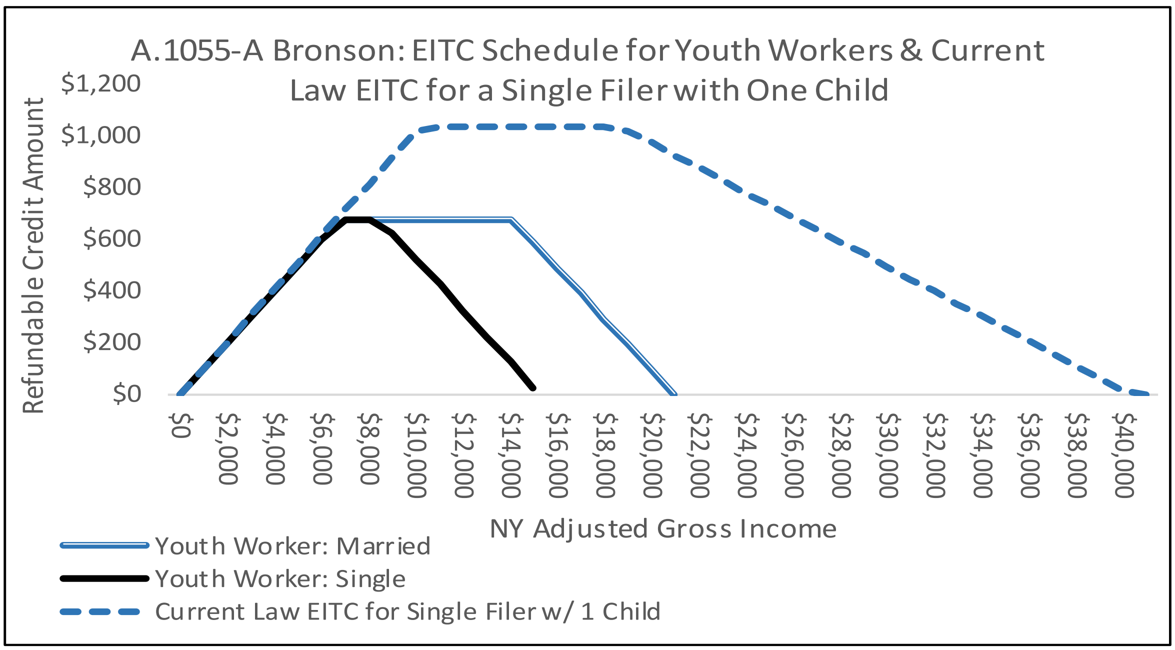
Proposed Laws

Close the Young Adult Worker Loophole

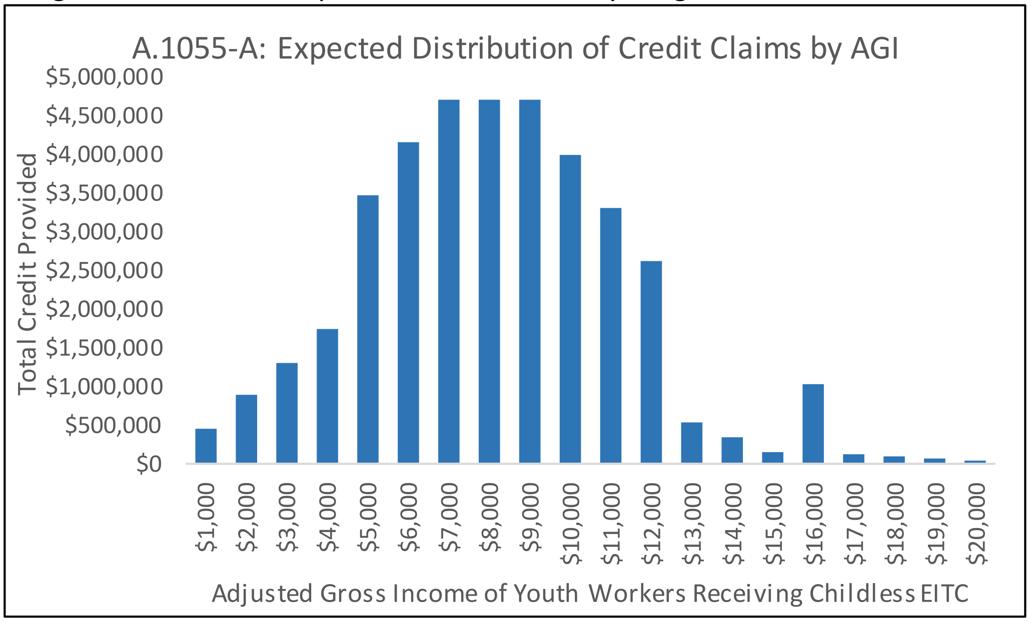
Childless young adult workers, those under the age of 25, are not eligible for the EITC at the Federal and thus the State level. We estimate that there are 85,345 young adult workers in the State that would be eligible for the childless EITC, because they cannot be claimed as a dependent, and they earn less than $15,270 as single filers or less than $20,900 as married filers.[21]

If a credit were provided to these young adult workers that was equivalent to the total of the Federal EITC, if they were aged 25, and the NYS credit, then the state fiscal impact is estimated to be $41 million in 2020. The average credit is expected to be $469.

A.1055-A, sponsored by Assembly member Harry Bronson, proposes this. The following chart shows the level of the credit schedule that would apply to childless youth workers that could not be claimed as dependents.



The following chart shows the expected distribution of young adult worker EITC claims:



Enhance the General EITC

As noted above, the NYS EITC has not been enhanced since 2003. There are two bills in the legislature that would increase the value of the state credit. There are 26 members of the Assembly that have sponsored a bill to increase the EITC. Either one of the following bills would benefit approximately 1.8 million children in working families, and over 1.5 million adult tax filers.

- **A.4177** Kolb
  - Increases the EITC from 30 percent of the Federal credit to 45 percent of the Federal credit beginning in 2020.
    - There is no fiscal impact listed in the bill memo, but this bill would increase tax expenditures by $550 million beginning in SFY 2021-22.
    - This bill would increase the credit amount by 50 percent. The average credit would increase by $334 to $1,002.
    - There are 12 members either cosponsoring or multi-sponsoring the bill: Kolb, Hawley, Palmesano, Ra, Raia, Montesano, Blankenbush, Giglio, DiPietro, Stec, Brabenec, Smith, and Crouch.
    - There is not a corresponding bill in the Senate.

- **A.3702** Schimminger
  - Increases the EITC from 30 percent of the Federal credit to 32.5 percent for 2019, and to 35 percent for all years on and after 2020.
    - The bill memo states that the fully implemented fiscal impact would be $160 million, but this is a likely under estimate of $20 million. The state fiscal impact would be $90 million a year for the two-year phase-in.

- This bill, fully phased-in, would increase the credit amount by 16.7 percent. The average credit would increase by $111 to $779.
- There are 14 cosponsors or multi-sponsors on the bill: Schimminger, Benedetto, Crespo, Gantt, Lavine, Cahill, Weprin, Aubry, Braunstein, Colton, Glick, Gottfried, Perry, and Thiele.
- There is not a corresponding bill in the Senate.

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[1] Kids Count Data Center: A Project of The Annie E. Casey Foundation. New York: Children in Poverty, 100%. (2017). https://datacenter.kidscount.org/data/tables/43-children-in-poverty-100-percent-poverty?loc=34&loct=2#detailed/2/34/false/871,870,573,869,36,868,867,133,38,35/any/321,322

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[4] http://www8.nationalacademies.org/onpinews/newsitem.aspx?RecordID=25246

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[10] *The Children's Defense Fund*. (2015) Ending Child Poverty Now, ch. 1. www.childrensdefense.org/library/PovertyReport/EndingChildPovertyNow.html

[11] Center on Budget and Policy Priorities, Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty, April 2016, https://www.cbpp.org/research/federal-tax/strengthening-the-eitc-for-childless-workers-would-promote-work-and-reduce

[12] Kids Count Data Center: A Project of The Annie E. Casey Foundation. New York: Population in poverty. (2017). https://datacenter.kidscount.org/data/tables/51-persons-18-to-24-in-poverty?loc=1&loct=2#detailed/2/2-53/false/871,870,573,869,36,868,867,133,38,35/any/337,338; https://datacenter.kidscount.org/data/tables/52-population-in-poverty?loc=1&loct=2#detailed/2/2-53/false/871,870,573,869,36,868,867,133,38,35/any/339,340

[13] *National Center for Children in Poverty (NCCP)*. (2017, May 17). New York: Demographics of Poor Children. www.nccp.org/profiles/NY_profile_7.html

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[15] NYS Division of the Budget and the Department of Taxation and Finance, FY 2020 Annual Report on New York State Tax Expenditures, https://www.budget.ny.gov/pubs/archive/fy20/exec/ter/fy20ter.pdf

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	EITC Youth Worker Estimate Methodology	Age 18-24	Age 25+	Total
	NYS Population	1,934,115	17,864,113	19,798,228
	Share Working	59.6%	62.1%	60.4%
	Number Working	1,153,008	11,101,439	11,958,130
	Share Earning Less than $20,000	22.3%	15.1%	
	Number Earning Less than $20,000	256,554	1,673,699	
	Share Zero Kids	91.6%		
	Number Working, Less than $20,000 and Zero Kids	234,987		
	Proxy for Independence: Age 17 to 24 Not Enrolled in a School Percentage	36.3%		
21	Estimated Number Independent	85,345		