Strengthening Family Tax Credits to Reduce Poverty

Across New York, more than 20%, or 880,000 children live below the federal poverty threshold, (including 260,000 children under age five), with that rate rising to nearly one in three among children of color. Children under age five are most likely to experience poverty and are most vulnerable to the impacts of poverty. 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%.

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 New York State overall. As a state, we should employ all tools at our disposal to combat family, child and young adult poverty, including tax policy.

United Way of New York's ALICE Project shines a light on a 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. The ALICE Report is a data-driven, comprehensive research project that upends the convention wisdom about poverty in New York State. Overall, more than 14% of New York households fall below the poverty level, while 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. There has been an increase of 30,000 households below the ALICE threshold since 2010. On many levels, New York is an affluent state—with high median incomes, quality schools and prosperous corporations but, the fact is, 45% of households cannot afford basic necessities.

New York State must aggressively orient the state's tax code to benefit low-income families by using our tax policy to combat child poverty, encourage workforce participation among young adults, and provide material financial support to low-income working families. **Specifically, we should expand and strengthen New York's Earned Income Tax Credit (EITC) and child tax credit, the Empire State Child Credit.**

Increase and Expand New York State's Earned Income Tax Credit for Families, and Young Adults

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. The EITC is a rare anti-poverty program that enjoys bipartisan support and has been expanded a number of times at the federal and state level since its introduction in the 1970's. 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. It is estimated that expanding the state's match of the federal EITC from 30% to 40% would provide meaningful material support to more than 1.5 million households.

Young adults (under age 25) without children are ineligible to receive the federal or state credit—at exactly the period in their lives when they are struggling to gain their footing in the workforce and build a nest egg for a future family. The ALICE Report for 2016 shows a 19% drop in Heads of Household under the age of 25 years of age between 2014 and 2016, a sharp indicator that our young adults need the tax credits for stability. Expanding the state credit to cover young adults would help reverse this trend, and encourage more workforce engagement.

Expand the Empire State Child Credit to Cover the Youngest New Yorkers

The Empire State Tax Credit provides up to $330 in tax relief to parents for each child, *if those children are at least 4 years old*. The credit is means-tested, and 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. 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.

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 young child poverty rate of approximately 24%, it is estimated that ***220,873 children living in poverty, under the age of four, are excluded from this credit.***

The exclusion of New York's youngest children from a credit that exists to offset the high costs of raising children defies logic and should be fixed. Expanding the Empire State Child Credit to cover children under age four, and bolstering the credit for the state's youngest, would bring this law in line with the growing body of research establishing how critical are the early years, and how investments in young children pay dividends for a lifetime.

By Strengthening Working Family Tax Credits, New York Can Dramatically Reduce Poverty and Economic Instability

Working family refundable tax credits are one important means of building family economic security and independence and pulling families and children out of poverty. They are structured in a way that encourages work and makes low-wage pay checks stretch further. New York State can support smart tax policies and initiatives that make a real difference in the lives of struggling families:

- ***New York should enact A. 10552(Bronson)/ S. 4891(Parker) to expand the EITC to cover young childless adults at 130% of the federal credit for childless adults over age 25; and A.3702 (Schimminger) to expand the EITC for families from 30% to 32.5% of the federal credit in tax year 2019, and to 35% of the federal credit beginning in tax year 2020, or A. 4177 (Kolb) to increase the credit for families from 30% to 45% of the federal credit.***
- ***New York should enact A.01222(Jaffee)/ S. 4633(Montgomery) to expand the Empire State Child Credit to cover young children (under age four), and double the credit for these young children.***

Read this policy brief by Fiscal Policy Institute, The Children's Agenda and Schuyler Center for Analysis and Advocacy for a more detailed report about the importance of strengthening New York's working family tax credits to reduce poverty and economic instability among hardworking New Yorkers.