Policy Analysis

Give Families Credit

Making New York Tax Policy Work for Families

TheChildren'sAgenda

Smart Choices. Bold Voices.

www.thechildrensagenda.org

February 2024

Table of Contents

Executive Summary 3

Introduction 4

Existing New York State Child-Related Credits and Exemptions 5

Empire State Child Credit 6

Earned Income Credit 9

Child and Dependent Care Credit 13

Dependent Exemption 16

Combined Effect of These Credits 17

Comprehensive Reform Proposal: Working Families Tax Credit 21

Solving Shortcomings in Existing Law 22

Costs and Benefits 24

Conclusion 25

Appendix 26

Primary Author
Pete Nabozny
Policy Director
pete@thechildrensagenda.org

Research Assistant
Shannon Mullin
Research & Policy Analyst
shannon@thechildrensagenda.org

Executive Summary

PURPOSE

This report examines how New York can consolidate existing tax credits and exemptions into the Working Families Tax Credit to significantly reduce child poverty and make New York a more affordable place to raise children.

METHOD

The Children's Agenda analyzed existing child-related tax credits and exemptions for their benefits and shortcomings. Based on that analysis, the Working Families Tax Credit is proposed as a comprehensive reform that can bring greater coherence and impact to child and family tax policy.

FINDINGS

The Working Families Tax Credit will keep more money in the pockets of parents, allowing them to invest their resources in their children.

It will provide critical support to families that need it the most by eliminating the exclusion of very low-income families with children from receiving the maximum credit.

The phase-out will be less steep than existing tax policy, preventing a cliff where families are suddenly ineligible or see substantially reduced benefits.

Indexing the credit to inflation ensures the credit maintains its value over time.

RECOMMENDATIONS

New York State government should:

1. **Consolidate** the Empire State Child Credit, Earned Income Credit, and Dependent Exemption into a single tax credit.
2. **Provide** a $1,600 per child credit for lower income filers with a 2% phase-out (or $20 for every additional $1,000) for earnings over $25,000 (single) or $50,000 (married couple), until the credit reaches a minimum of $500.
3. **Index** the credit to inflation.

Introduction

Income transfers to families, even modest ones, are linked to improved outcomes for children in all aspects of well-being, including improved physical, emotional, and behavioral health, as well as higher educational attainment and future earnings. **New York State's tax code contains several provisions that reduce taxes for families with children and provide financial support to low-income families.** These tax policies are a recognition that the costs associated with raising children are considerable, that our tax code should acknowledge that families with children typically have tighter household budgets than tax filers with similar incomes but no children, and that New York's income tax return process is an efficient way to deliver financial support to families.

The federal Child Tax Credit that was temporarily expanded in 2021 clearly demonstrated how **tax policy can be used to dramatically reduce child poverty, improve economic security, and efficiently help millions of families**. That expansion reduced child poverty across the country by 46%,[1] and research shows that the credit helped reduce food insecurity, housing instability, and a host of other stressors related to economic insecurity.[2]

However, New York's tax credits and exemptions for families with dependent children are **fragmented** and the structure of those tax provisions **limits their effectiveness**. This analysis examines the four largest tax expenditures aimed at families with children in New York's personal income tax code:

1. **Empire State Child Credit**
2. **Earned Income Credit**
3. **Child and Dependent Care Credit**
4. **Dependent Exemption**

Each of these has notable shortcomings, and some of those flaws compound upon one another. **The shortcomings further inequities, perpetuate economic insecurity, and limit upward mobility for families in the state.**

New York's tax credits and exemptions for families are based on aspects of the federal tax code as it existed prior to the 2017 federal tax reforms. While building upon the federal tax code is easier from an administrative perspective, New York should not accept and amplify flaws in the federal code. Instead, policymakers in New York should customize the state's tax code to meet the needs of families in our state, while demonstrating a better path for federal lawmakers to take in the future.

The Working Families Tax Credit is a bold tax credit consolidation and expansion proposal that can fix the current shortcomings of New York tax policy and provide critical support to New York families.

[1] See the Census Bureau's 2022 child poverty data release
[2] See Columbia University's Center on Poverty & Social Policy's analysis on the effect of the child tax credit on food and housing hardship.

Existing New York State Child-Related Credits and Expansions

The four largest tax expenditures aimed at families with children in New York's personal income tax code are the:

1. **Empire State Child Credit**
2. **Earned Income Credit**
3. **Child and Dependent Care Credit**
4. **Dependent Exemption**

Each of these policies has different purposes, eligibility requirements, phase-in and phase-out thresholds, and amounts.

	Description
Empire State Child Credit	A refundable child tax credit of up to $330 per child for middle-income and lower-income families. Credit amounts and income eligibility levels have not been adjusted for inflation since it was adopted in 2006. Lower-income families are not eligible for the full $330 credit.
Earned Income Credit	A highly targeted refundable credit of up to $2,229 for a family with three or more children. Tax filers without children can receive a small refund, but the credit is designed to support families with dependent children. Adjusts for inflation each year, but subjects full-time workers at the state minimum wage to a steep loss in benefits for each additional dollar earned.
Child and Dependent Care Credit	A refundable tax credit meant to help parents afford the cost of child care while they work. The average credit size was $318 in 2021. This credit provides a significantly larger credit to the lowest income families, but very few families making less than $50,000 a year can claim the credit.
Dependent Exemption	A tax provision that reduces the amount of income eligible for taxation by $1,000 per dependent. Disproportionately benefits the wealthiest families in New York State and provides no benefit to the lowest-income families in the state.

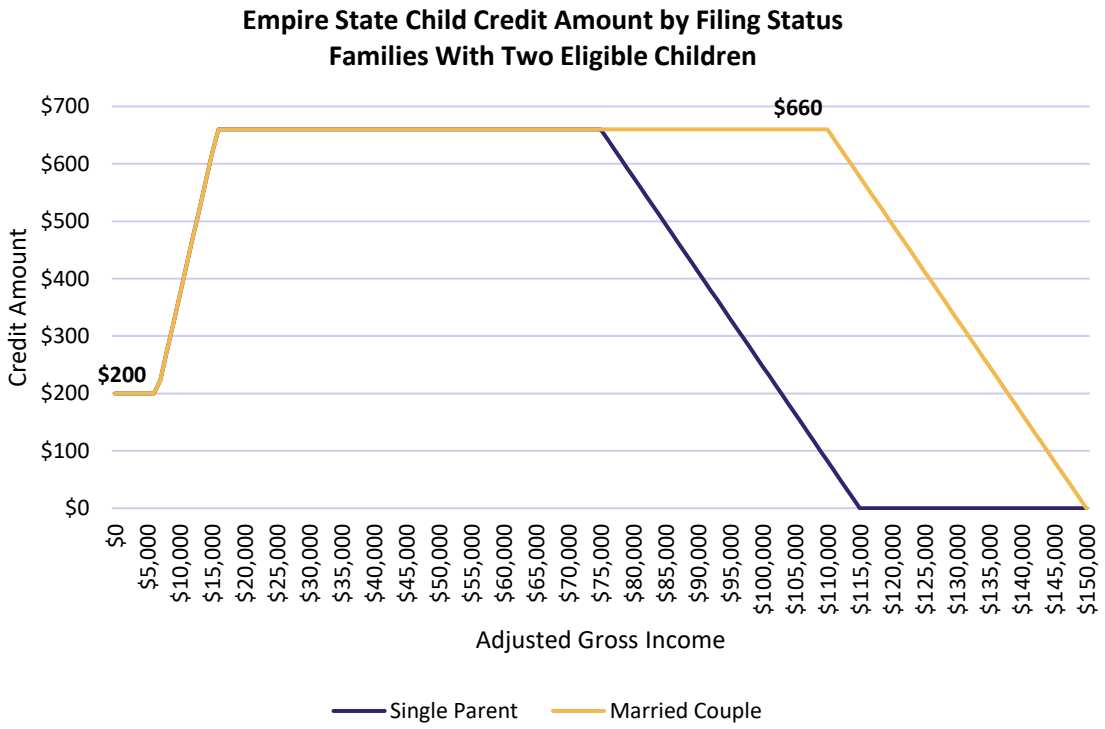
While each policy facilitates New York families keeping more of their income, as the following analyses show, the policies make for a complicated and fragmented system.

1 Empire State Child Credit

Annual Cost = $545 million in 2021, expected to be $676 million in 2024[3]

New York's Empire State Child Credit[4] was established for families with children ages 4 - 16 years in 2006 and expanded in the 2023-2024 New York State budget to include younger children. It is a **refundable tax credit** based on the Federal child tax credit as it existed prior to the 2017 Federal tax reform package. The benefit amounts and eligibility levels are **not indexed to inflation**.

The Empire State Child Credit's phase-in includes a **minimum per child credit of $100** for families with extremely low incomes, and then phases in at 15% for each dollar of income until a **maximum credit of $330 per child** is reached.[5] New York State resident filers with **adjusted gross incomes less than $75,000 (single)/$110,000 (married) with qualifying children can receive between $100 and $330 per child**. The credit then begins to phase out at a 5% rate above those income eligibility levels.



[3] See New York State FY 2025 Tax Expenditures Report for more information - https://www.tax.ny.gov/pdf/research/stats/expenditure-reports/fy25ter.pdf

[4] See https://www.tax.ny.gov/pit/credits/empire_state_child_credit.htm for more details

[5] Technically, the Empire State Child Credit follows the pre-2017 federal structure and phases in at 15% of each dollar of income after the first $3,000 of earnings, until the total federal credit amount is $1,000 per child. The state total is 33% of that federal amount, for a maximum of $330 per child.

In the 2021 tax year, families of over two million children in New York received the Empire State Child Credit.[6] Of these, 17% of families had incomes below $20,000, 31% earned $20,000-$39,999, and another 20% earned $40,000-$59,999. The majority of families had one or two eligible children (38% each). Over half (57%) of filers were single/head of households, with another 41% being married couples who filed jointly.

Shortcomings

The Empire State Child Credit has several shortcomings which prevent it from having a more substantial impact on child poverty reduction and ensuring greater economic security for New York's families. Shortcomings include its phase-in thresholds, inaccessibility to low-income families, credit amount, and phase-out.

Phase-In & Inaccessibility to Low-Income Families

New York is the only state with a refundable tax credit to also include an income level phase-in, preventing low-income families from receiving the maximum credit. **No family earning below $9,667 can receive the full $330 per child credit and low-income families with multiple children must earn increasingly more income to receive the full credit.**

Number of Children	Annual Income Needed to Receive Full $330 per child credit
1	$9,667
2	$16,333
3	$23,000
4	$29,667
5	$36,333

A Mother's Perspective

Getting the federal Child Tax Credit helped me fix my credit and pay back bills, enabled me to open a bank account, helped me purchase necessities for my family like medical items, helped me get clothing for my kids, and helped me afford enough food to feed my family.

With the monthly Child Tax Credit, I could shop for my family every two weeks, instead of having to plan everything around once a month. I was able to depend less and less on community services. I was able to plan more and be more consistent. It made me feel more self-sufficient and independent and makes my kids feel that way.

When I lost that Child Tax Credit, I also really felt the difference. All of a sudden, it got much more difficult to meet the bills again, and we found we had to go back to food pantries and clothing closets.

~Candace, community non-profit employee

[6] See Empire State Child Credit Study by Filing Status: Beginning 2017 | State of New York (ny.gov)

Credit Amount & Phase-Out

Over the past several years, other states have adopted or expanded their child tax credits to greatly outpace New York in accessibility to low-income families, credit amount, and phase-out level.[7] **Low-income families with children in states like Colorado, California, Minnesota, and Vermont can now receive tax credits three to five times higher than New York families.** Many states, including New Mexico and Vermont, also offer relief to a broader range of families by phasing out their refundable credits at higher income limits. Massachusetts offers a universal credit, ensuring all families in the state receive support.

In contrast, the Empire State Child Credit's amount and income eligibility have not been adjusted for inflation since the credit began in 2006. **An inflation adjusted child tax credit of $330 would be over $500 today.** Similarly, if income eligibility levels of the Empire State Child Credit were increased to account for inflation, **single/head of household filers making $116,000 and married couples making $170,000 a year would be eligible for the maximum credit.**

If the Empire State Child Credit was adjusted for inflation,
it would be over $500 today.

[7] See Appendix for additional information on Child Tax Credits around the country

2 Earned Income Credit

Annual Cost = $729 million in 2021, estimated to be $905 million in 2024[8]

New York's Earned Income Credit is a refundable tax credit established in 1994 and tied to the federal Earned Income Tax Credit (EITC).[9] Tax filers can claim a credit equal to 30% of the federal EITC.[10] State policymakers steadily increased New York's match of the federal credit from 7.5% to 30% between 1994 and 2003 but have not increased it since then. Credit amounts and income eligibility levels are, however, **adjusted for inflation each year**.

The Earned Income Tax Credit is something of a hybrid credit. It is designed as a wage subsidy for low-wage jobs and is intended to encourage people to enter or remain in the workforce. However, because the credit is much larger for families with children and the benefit amount varies based on the number of children in a household, it can also be viewed as a type of child tax credit.

As noted above, New York's credit is structured as a percentage of the federal credit. The federal credit is quite complicated, with credit amounts, phase-in rates, phase-out rates, and phase-out points varying for different household types and income levels. Compared to the state or federal child tax credit, this credit is **targeted to families with incomes near the federal poverty threshold**.

An Advocate's Perspective

Growing up and coming into adulthood, it was difficult. I didn't know what success looked like. My family had not experienced that. I didn't know what it meant to be middle class.

I remember after I graduated from high school, sleeping on people's couches but not realizing that I was homeless. I don't know if I even knew I was in poverty. I was making $400 every few weeks and I was trying to find my own place, but couldn't afford any place.

Navigating that was such an isolating experience, feeling like you don't have community in that moment. Then to hear people who are leaders in the community telling you to pull up yourself by your bootstraps, but my boots don't have any straps.

Now that I'm a middle class woman, I have a responsibility to my community to help young people.

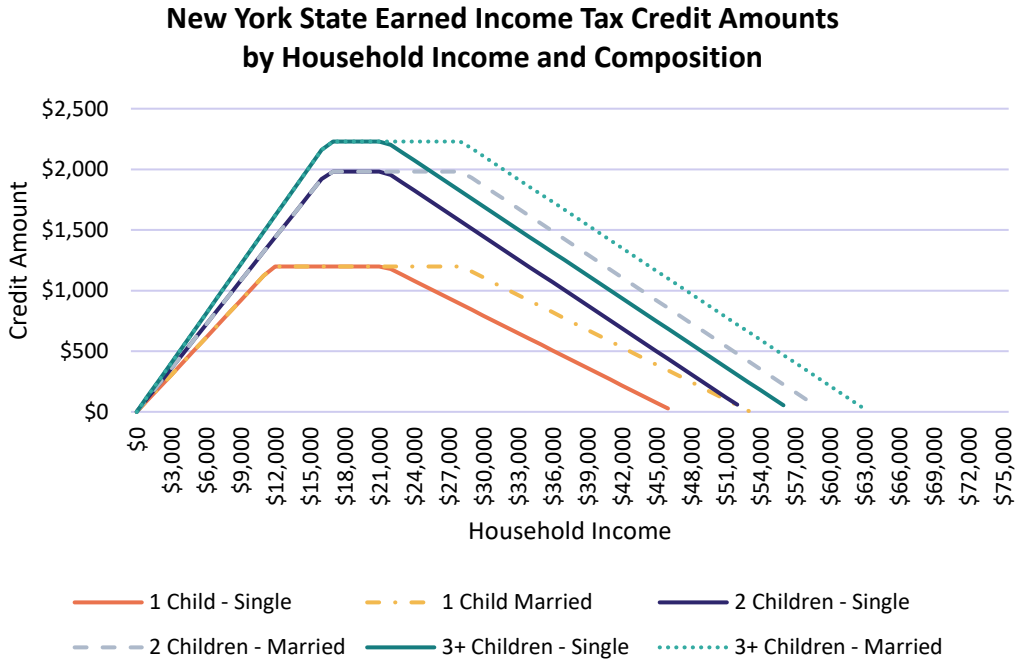
~ Shan, youth advocate in Rochester

[8] See New York State FY 2025 Tax Expenditures Report for more information https://www.tax.ny.gov/pdf/research/stats/expenditure-reports/fy25ter.pdf

[9] See https://www.tax.ny.gov/pit/credits/earned_income_credit.htm for more information on New York's Earned Income Credit

[10] See https://www.cbpp.org/research/policy-basics-the-earned-income-tax-credit for more information on the federal Earned Income Tax Credit

2023 New York State Earned Income Tax Credit Parameters								
Number of Children	**Phase-in Rate**	**Minimum Income for Maximum Credit**	**Maximum Credit Amount**	**Phase-out rate**	**Single Filer Phase-out Range**		**Married Couple Phase-out Range**	
					Beginning Income	***Ending Income***	***Beginning Income***	***Ending Income***
1	34%	$11,750	$1,199	15.98%	$21,560	$46,560	$28,120	$53,120
2	40%	$16,510	$1,981	21.06%	$21,560	$52,918	$28,120	$59,478
3	45%	$16,510	$2,229	21.06%	$21,560	$56,838	$28,120	$63,398



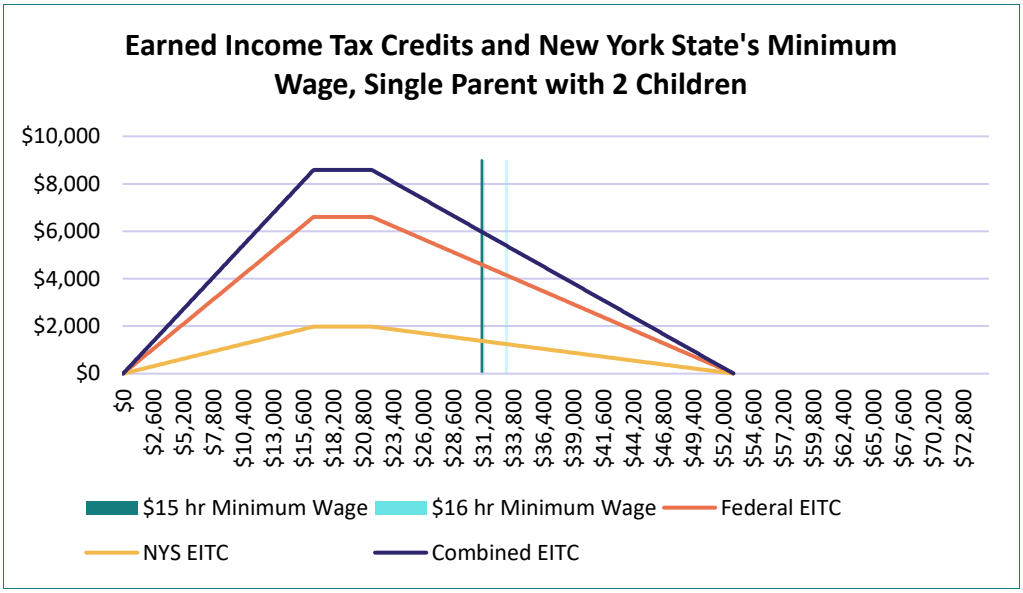
Shortcomings

One significant drawback to a highly targeted tax credit is the adverse effect it has on families who fall outside the target population. The maximum benefit of the earned income tax credit is quite significant, especially if the state credit is viewed together with the larger federal benefit. However, **families with incomes just outside that maximum credit are penalized for being either too poor or not poor enough to receive the full benefit.**

Impact of Wage Increases

The large impact of small wage increases can be clearly seen through the interaction between New York's minimum wage and the combined state and federal EITCs. On January 1, 2024, New York's minimum wage increased from $15 an hour to $16 an hour in New York City, Long Island, and Westchester County. It rose from $14.20 to $15 throughout the rest of New York.

A downstate single parent with two children who works 40 hours a week at the minimum wage experienced a $2,080 pre-tax increase in pay, with their **gross income rising from $31,200 to $33,280** per year. However, their annual income **places them on the phase-out** portion of the Earned Income Tax Credit, and **each additional dollar they earn is partially offset by a declining tax credit**.



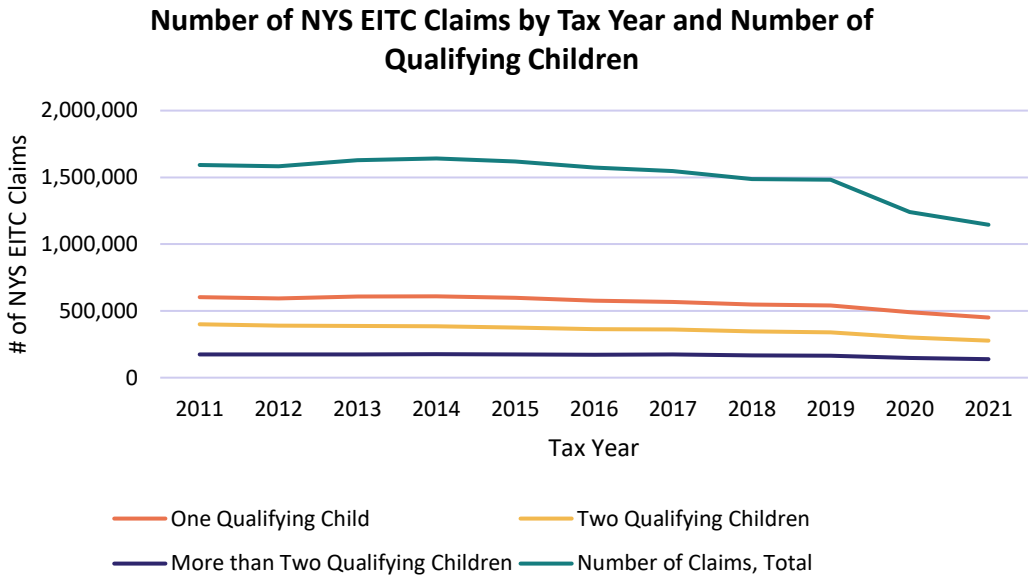
This parent stands to lose $569 in combined state and federal EITC benefits as a result of receiving that $2,080 increase. Factoring in state and federal income and payroll taxes on top of the decreased EITC amount, **this parent loses almost half ($1,030 of $2,080) of the value of their pay increase.** Families in this income range **may also encounter declining support from various public assistance programs like SNAP, Medicaid, and WIC.** The combined effect of the loss of these benefits **makes it difficult for families to become more economically secure despite experiencing an increase in their take-home pay.**

Exclusion of ITIN Filers

Unlike the Empire State Child Credit, New York's Earned Income Credit also **excludes immigrant tax filers who file with an Individualized Tax Identification Number (ITIN),** instead of a Social Security Number. This prevents many immigrant households who are also excluded from many public benefits from accessing this credit.

Declining Uptake

While it is difficult to ascertain the impact of minimum wage increases[11] and pandemic-era unemployment[12] on the number of Earned Income Credit-eligible families**, there has been a clear decline in uptake of the state credit since its peak in TY2014, with a steep drop-off in tax years 2020 and 2021.**[13] Just over 1.1 million filers claimed the EITC in TY2021, **a low which had not been seen since TY1998**. When looking solely at families with children, there was a 26% decline in number of claims between 2014 and 2021, and a 17% drop since the final pre-pandemic numbers (TY2019). **The average credit amount families received also declined by about 10%** between tax years 2019 and 2021, dropping from $668 to $604 for families with one qualifying child, $1,079 to $980 for two qualifying children, and $1,258 to $1,148 for two or more qualifying children. This is despite the maximum credit families could receive increasing by 3% due to inflation.[14]



[11] See History of the Minimum Wage in New York State | Department of Labor (ny.gov)
[12] See New York's Labor Force: Assessing 10-Year Trends and Pandemic Setbacks | Office of the New York State Comptroller (ny.gov)
[13] See Earned Income Tax Credit (NYS EITC) Claims by Place of Residence and Size of Earned Income | State of New York
[14] See EITC Parameters | Tax Policy Center

3 Child and Dependent Care Credit

Annual Cost = $119 million in 2021, estimated to be $126 million in 2024[15]

Enacted in 1976, New York's refundable Child and Dependent Care Credit[16] is **designed to offset child care expenses**. The state's credit is based on the federal Child and Dependent Care tax credit, which provides a maximum credit of between $600 and $1,050 per child for a maximum of two children. New York's credit **provides a percentage match of the federal credit** and builds upon it by extending a smaller credit to families who have dependent care expenses for up to five children.

The Child and Dependent Care Credit is, at first glance, highly progressive. **Families making less than $15,000 a year are eligible for a $1,155 credit for each of their first two qualifying children.** The state credit then generally declines as a match of the federal credit until it reaches a **minimum one child credit of $120 after a family's adjusted gross income exceeds $150,000 a year**. The credit **is fully refundable, which ensures that low-income families with qualifying expenses can receive the full credit amount.** The per-child credit amount declines for each subsequent qualifying child beyond the first two, making the credit less helpful on a per-child basis to larger families, but more generous in that regard than the federal credit.

A Father's Perspective

Since my daughter started at Rochester Childfirst Network, I have seen tremendous growth in all aspects of her being. I've seen growth in her social-emotional development, motor skill development, also just tremendous happiness when she comes home every day. When we talk about the things that she does while she's there, her eyes light up.

From a parent's perspective, it would be wonderful if we could have more help with the cost of child care. Costs are above what our mortgage and utilities are every month. To be able to have that to cover other activities in the community, to set aside for my daughter's future and create a college savings plan, would be wonderful.

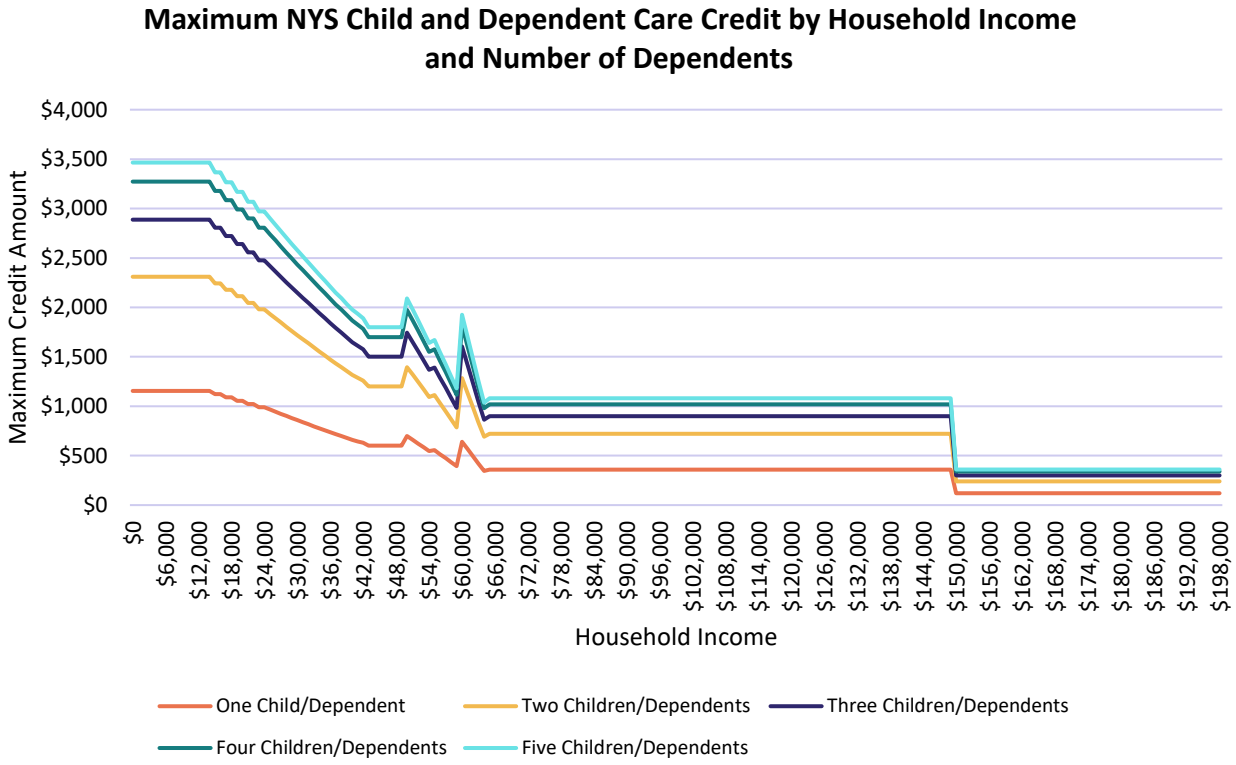
~ Dan, Rochester father and employment counselor

[15] See New York State FY 2025 Tax Expenditures Report for more information - https://www.tax.ny.gov/pdf/research/stats/expenditure-reports/fy25ter.pdf

[16] See Child and Dependent Care Credit tax filer information

The structure of this credit has changed over time. **A 2017 expansion of this credit for families making between $50,000 and $150,000 per year altered the generally progressive structure of the credit.** As a result of that expansion:

- Families making $50,000 a year are eligible for a substantially larger credit than those making $49,000 a year
- Families making $60,000 a year qualify for a credit that is 63% larger than families making $59,000 a year
- Families earning $150,000 or more a year also experience a benefit cliff against those households making just under that amount, with the maximum credit size falling from $720 a year for a family with two dependent children at $149,999 to $240 a year at $150,000.



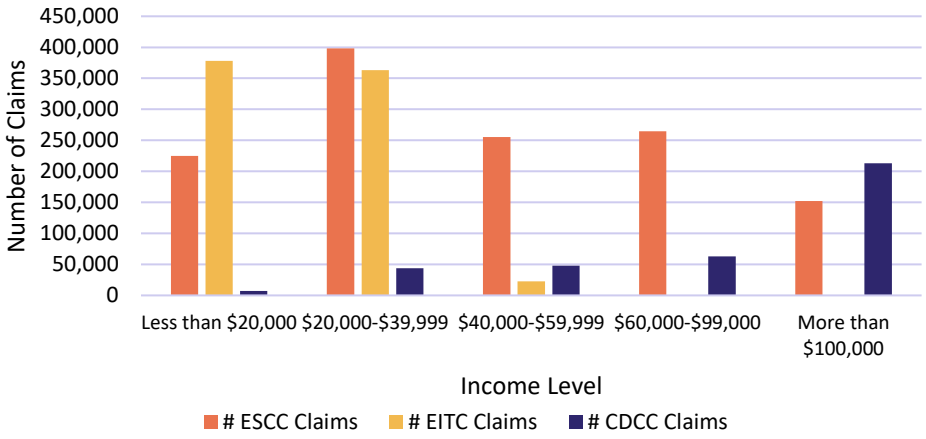
Shortcomings

While New York's Child and Dependent Care Credit appears to be quite progressive in overall structure, the credit ends up being far less helpful for low-income families than the structure would suggest. **Families near or below the federal poverty threshold often do not have enough money on-hand to pay out-of-pocket for child care and then wait until tax filing season to recoup a portion of their expenses.** In 2021:

- Only 7,011 families across New York State making less than $20,000 a year claimed this credit
- By contrast, over 378,000 families with children making less than $20,000 annually in 2021 received some benefit from the state's Earned Income Tax Credit
- Nearly 225,000 families making less than $20,000 annually receive the Empire State Child Credit

- In addition, 67% of child and dependent care credits were claimed by families making more than $75,000 a year. Statewide, the average credit amount per family claiming it was $318.[17]

Number of Claims by Household Income and Credit Type
(2021)



Recent expansions in the state's Child Care Assistance Program also call into question the usefulness of this credit for low and middle-income families moving forward. Over the past several years, New York has significantly expanded eligibility and funding for child care assistance, and a family of four making up to $99,250 is now income eligible for extremely low-cost child care through that program.[18]

[17] See https://www.tax.ny.gov/research/stats/stat_pit/child_and_dependent_care_credit/child_and_dependent_care_credit_background_and_analysis_open_data.htm for more detail.
[18] See https://ocfs.ny.gov/main/policies/external/2023/adm/23-OCFS-ADM-18.pdf for more information about current Child Care Assistance Program eligibility levels

4 Dependent Exemption

Annual Cost = $268 million in 2021,[19] estimated to be $241 million in 2024[20]

New York State's tax code contains a **$1,000 exemption for each dependent** claimed by a tax filer. This exemption is modeled off the pre-2017 federal personal income tax structure. The exemption removes $1,000 of taxable income per dependent for the filer before tax rates and any credits are applied. All filers with dependent children and qualifying adult dependents are eligible for the exemption.

This exemption removes some income taxed at the highest marginal rate for the filer. When applied to New York's progressive tax system, the state's dependent exemption therefore **benefits higher income filers more than low-income New Yorkers.** In addition, because the dependent exemption is applied after the standard deduction, **families with earnings below the standard deduction amount ($8,000 for a single filer, $16,050 for a married couple) receive no benefit from this tax provision**.

The tables below demonstrate how **higher income families receive a larger benefit from this tax provision than middle-income or lower-income families**. While the tax benefit derived from the dependent exemption is small across all income categories, it is still a regressive family tax benefit.

A Mother's Perspective

When I became a mom, I found myself in the cycle of poverty. It's a cycle I grew up in. I'm pretty sure my mom thought she was doing her best, that she was shielding us from it. But you can't hide the lights being turned off. You can't hide watching your mom not eat while you and your sister sit at the table and eat. So I knew what was going on.

When I had my son, I wanted to get myself out of that cycle so that my son would not have to experience the same things I did as a child.

There are some very good resources available, but you have to know how to find them. Sometimes you have to be connected to the right people. Also, you have to have thick skin to be able to make it through the process. My experience is sometimes being made to feel like I'm less than because I need help.

~ Danielle, mom of two, mental health counselor and doula

[19] The state's tax code allows filers to apply exemptions to both dependent children and qualifying adult dependents. According to the Congressional Research Service, nationally, 76% of dependents in 2016 were children 0-16 years old. Applying that percentage to New York's tax expenditures on the dependent exemption, the child dependent exemption in NYS likely costs roughly $200 million per year.

[20] See New York State FY 2025 Tax Expenditures Report for more information - https://www.tax.ny.gov/pdf/research/stats/expenditure-reports/fy25ter.pdf

Single Parent/Head of Household	
Income Range	**Tax Reduction Per Child**
$0 to $11,200	$0.00
$11,201 to $24,000	$40.00
$24,001 to $28,850	$45.00
$28,851 to $32,100	$52.50
$32,101 to $118,850	$58.50
$118,851 to $280,500	$62.50
$280,501 to $1,627,650	$68.50
$1,627,651 to $5,011,200	$96.50
$5,011,201 to $25,011,200	$103.00
Over $25,011,200	$109.00

Married Couple	
Income Range	**Tax Reduction Per Child**
$0 to $16,050	$0.00
$16,051 to $33,200	$40.00
$33,201 to $39,650	$45.00
$39,651 to $43,950	$52.50
$43,951 to $177,600	$58.50
$177,601 to $339,250	$62.50
$339,251 to $2,171,400	$68.50
$2,171,401 to $5,016,050	$96.50
$5,016,051 to $25,016,050	$103.00
Over $25,016,050	$109.00

Combined Effects of These Credits

While each of these credits and exemptions has their own distinct eligibility criteria, many families are eligible for more than one of these tax provisions.

- The **Dependent Exemption** is a **nearly universal** benefit for families with dependents (except for families with very little income).
- The **Earned Income Tax Credit** and the **Empire State Child Credit** are more **means-tested**.
- The **Child and Dependent Care Credit** is **conditioned both on income and having certain qualifying expenses**. Uptake of that credit is also far lower than the others examined here.

Effects for Families

Excluding the Child and Dependent Care Credit, the combined benefit amounts from New York's Earned Income Tax Credit, Empire State Child Credit, and Dependent Exemption are shown below. While these combined credits are generally distributionally progressive, **very low-income households are heavily penalized for not making enough money to qualify for the maximum credits and exemptions**. Only a narrow range of families are able to receive the maximum combined credits and exemptions before the amount begins phasing out sharply, plateauing, and then eventually phasing out some more. Families with children making slightly more than $100,000 a year receive very little support from New York's tax code right now and are expected to pay nearly the same amount in taxes as filers making the same amount annually who do not have any children.

Combined Tax Benefits from NYS Empire State Child Credit, Earned Income Tax Credit, and Dependent Exemption

Single Mother with 2 Children

The combined shortcomings also result in these policies benefiting fewer families than was intended.

	Shortcomings
Empire State Child Credit	• Income phase-in reduces credit for lower-income families who need it the most • Low credit amount
Earned Income Credit	• Minimum wage increases result in low-wage earners losing out on much of the value of the credit while simultaneously becoming ineligible for public assistance programs • Tax payers with an Individualized Tax Identification Number are excluded • Declining uptake of the credit
Child and Dependent Care Credit	• Families near or below the poverty line often do not have enough money on-hand to pay out-of-pocket for child care and then wait for tax filing season to recoup a portion of the expense
Dependent Exemption	• Benefits higher income filers more than low-income New Yorkers

A December 2023 poll of 600 Monroe County parents, conducted by The Children's Agenda, found **parents with annual household incomes under $100,000 are experiencing a variety of economic challenges**.[21] Over half of parents at this income level reported stress trying to provide for their family's basic necessities, with:

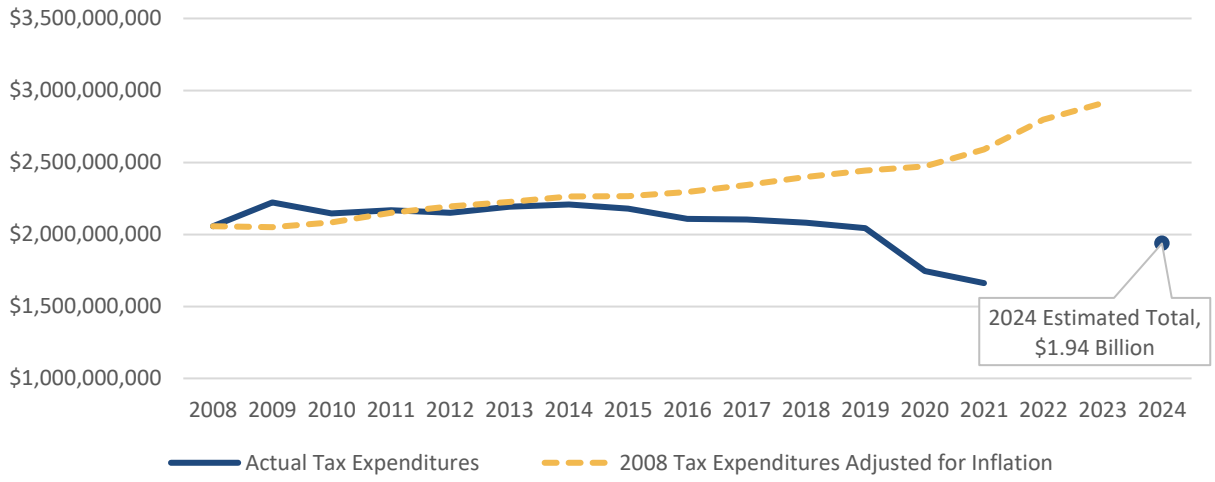
- 66% struggling to afford their rent or mortgage
- 61% rationing food until their next paycheck
- 56% struggling to afford insurance that covers mental health care

Parents all across the state are facing these same challenges and, in a time of rising costs and a statewide affordability crisis, New York needs bold public policies and smart use of public funds so children and families can thrive.

Total Cost of Existing Credits and Exemptions

New York State spending on these credits and exemptions **peaked at $2.2 billion in 2014** and slowly declined for several years before the onset of the COVID-19 pandemic. **Spending then fell sharply to $1.7 billion in 2020 and is projected to remain below $2 billion in 2024**.[22]

NYS Combined Tax Expenditures on Empire State Child Credit, Earned Income Tax Credit, Child and Dependent Care Credit & Dependent Exemption
by Year



Some of the reduction in tax expenditures on children and families can likely be attributed to the declining number of births and children in New York, though other factors may contribute as well. For example, only the Earned Income Tax Credit is adjusted for inflation, so rising household earnings may

[21] See Family Voices: Monroe County Parent Poll December 2023 - The Children's Agenda (thechildrensagenda.org)
[22] See New York State Tax Expenditure Report (ny.gov)

have lifted some people out of the credit eligibility ranges for the Empire State Child Credit and the larger credit income ranges of the Child and Dependent Care Credit. In addition, as noted above, New York's increasing minimum wage during this period may also contribute to declining EITC expenditures.

In total, New York's Department of Taxation and Finance expects to spend $1.94 billion on these expenditures in 2024. However, if 2008 spending levels had grown with inflation since then, total state expenditures would have been approximately $3 billion in 2023.

Comprehensive Reform Proposal: Working Families Tax Credit

The proposed Working Families Tax Credit[23] addresses nearly all the concerns identified in this analysis.

- By **consolidating** the state's Empire State Child Credit, Earned Income Credit, and Dependent Exemption into a single credit, this proposed legislation brings more coherence to the state's approach to child and family tax policy.

- The proposed credit is both **targeted** and **universal**. It ensures that **families with the greatest needs can receive the most substantial support** but also **acknowledges that the cost of raising children can be considerable for more well-off families as well**. Food, housing, transportation, and other expenses all rise when a child is born, and the universal nature of this proposed credit is a modest recognition of that reality.

- **When fully implemented, the Working Families Tax Credit will provide a $1,600 per child credit (plus an inflation adjustment from 2023) for single filers making $25,000 or less per year and for married couples earning $50,000 or less.**

- The total credit will then **phase out by 2%** (or $20 for every additional $1,000) earned over $25,000 (single) or $50,000 (married couple), until the per child credit reaches $500. The **$500 per child credit amount is the minimum amount** provided to all families with earnings above the phase-out level.

A Mother's Perspective

As an adult, I came into poverty because I was stricken with illness. Now I'm technically disabled.

When my son went to school, I decided that even though I'm disabled, I needed to get out there and figure out what I'm going to do with my life. So, I took advantage of SUNY's Rochester Education Opportunity Center and I was able to get a trade.

But the working poor are still struggling with meeting their basic needs. Too many people are hopeless and don't see a light at the end of the tunnel.

For the community to trust elected officials, they have to show what they're doing and how it's helping the community.
~ Deondra, Rochester mom and cosmetologist

[23] See New York State Senate Bill S277-B

The legislation proposes to **offset some of the costs of this approach by consolidating three of the four tax credits analyzed in this brief into this single, larger credit.** It also scales up to a maximum and minimum per child credit over a period of several years, **reducing the single-year costs associated with implementing this legislation.**

The table below demonstrates how the credit would roll-out over a period of five years. The Empire State Child Credit and Dependent Exemption are eliminated in year one, while the state's Earned Income Tax Credit is steadily reduced from the current 30% match of the federal credit and eventually eliminated over the course of several years.[24] The entire credit is eventually indexed for inflation, ensuring that its impact does not erode over time.

Working Families Tax Credit Proposed 5 Year Roll-Out					
Year	**Maximum per child Working Families Tax Credit**	**Minimum per child Working Families Tax Credit**	**Phase-out Begins**	**NYS match of federal EITC**	**Dependent Exemption and state CTC**
2024	$800	$150	$65k/$130k	21%	Repealed
2025	$1,100	$250	$55k/$110k	15%	Repealed
2026	$1,350	$400	$45k/$90k	10%	Repealed
2027	$1,600 + CPI-U[25] since 2023	$500	$25k/$50k + CPI-U	0%	Repealed
2028	$1,600 + CPI-U since 2023	$500 +CPI-U	$25k/$50k + CPI-U	0%	Repealed

The Working Families Tax Credit is structured to ensure that all tax filers with children are better off under this legislation than under current law. It also proposes distributing a portion of a family's credit quarterly in advance of the next tax filing period, **smoothing family income over the course of a year and helping families meet some of their recurring expenses.**

Solving Shortcomings in Existing Law

The Working Families Tax Credit addresses the most egregious shortcomings in New York's existing tax policies. Most significantly, it **eliminates the exclusion of very low-income families with children** from receiving the maximum credit. Families experiencing deep poverty with little income can receive the full Working Families Tax Credit, while they are currently excluded from receiving the state's maximum Earned Income Tax Credit, Empire State Child Credit, or Dependent Exemption. This addresses the most

[24] The legislation retains the existing state Earned Income Credit for childless adults and a credit for older dependents who qualify for the existing state Earned Income Credit but not the Working Families Tax Credit

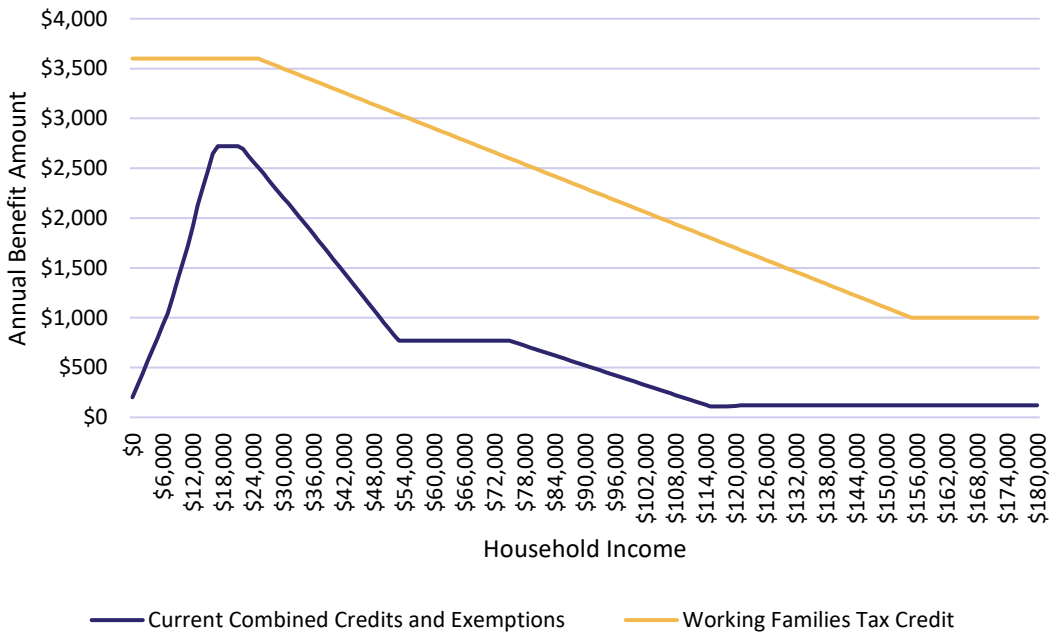
[25] The CPI-U stands for the "Consumer Price Index for All Urban Customers," and is an inflation measure commonly used to calculate cost-of-living adjustments.

significant inequity in New York's current approach to tax policy and provides critical support to families that need it the most.

The gradual phase-out of the Working Families Tax Credit reduces some of the negatives of the EITC phase-out for families with annual incomes between $20,000 and $50,000. While the WFTC begins to phase-out at $25,000 for single filers and $50,000 for married couples, the credit's **phase-out is much less steep** than the Earned Income Tax Credit. The chart below shows the difference between the Working Families Tax Credit and the current combined state EITC, ESCC, and Dependent Exemption for a single parent with two children. Families experiencing significant phase-outs from the federal EITC and various means-tested public assistance program will also have substantially more support once the WFTC fully-phases in.

Working Family Tax Credit Compared with Existing NYS Tax Expenditures

Single Parent with Two Children



As noted earlier, under existing law, only the state's Earned Income Credit is indexed to inflation. As a result, the real value of the state's Empire State Child Credit has diminished over time, and the total combined effect of the state's current package of credits and exemption will continue to lessen unless policymakers act. By contrast, **the eligibility levels, maximum credit, and minimum credit of the Working Families Tax Credit are all indexed to inflation**. This will ensure that the credit maintains its value and support to New York's families into the future.

Immigrant tax filers are also included in the Working Families Tax Credit, ensuring that children from all backgrounds in New York can receive the support they need to thrive. This addresses and corrects an exclusion which is built into the federal and state Earned Income Tax Credit.

By enacting the Working Families Tax Credit, New York can dramatically reduce child poverty and ensure millions of the state's children can grow up more economically secure and able to thrive. The per child amounts proposed by the Working Families Tax Credit are appropriate given the challenges facing New York's families. New York is an increasingly unaffordable state, with a rising cost of living affecting people across the entire state. Families with children are particularly affected by rising costs. Families with children need more living space, have higher food bills and transportation costs, and are more likely to experience poverty and general economic uncertainty. Despite being one of the wealthiest states in the nation, New York's child poverty rate consistently exceeds the national rate.[26]

Costs and Benefits

The Institute for Taxation and Economic Policy (ITEP) developed a detailed cost estimate for the Working Families Tax Credit. ITEP found that the Working Families Tax Credit would cost **$1.28 billion** in the first year and **$3 billion** when fully implemented after 5 years. That estimate is inclusive of savings associated with consolidating the three existing credits into the new comprehensive credit. The analysis also concluded that, when fully implemented, the Working Families Tax Credit would provide an **average new tax benefit of $1,378** per year to families making less than $151,600 and provide a **tax cut to 22% of all tax filers** in New York state.

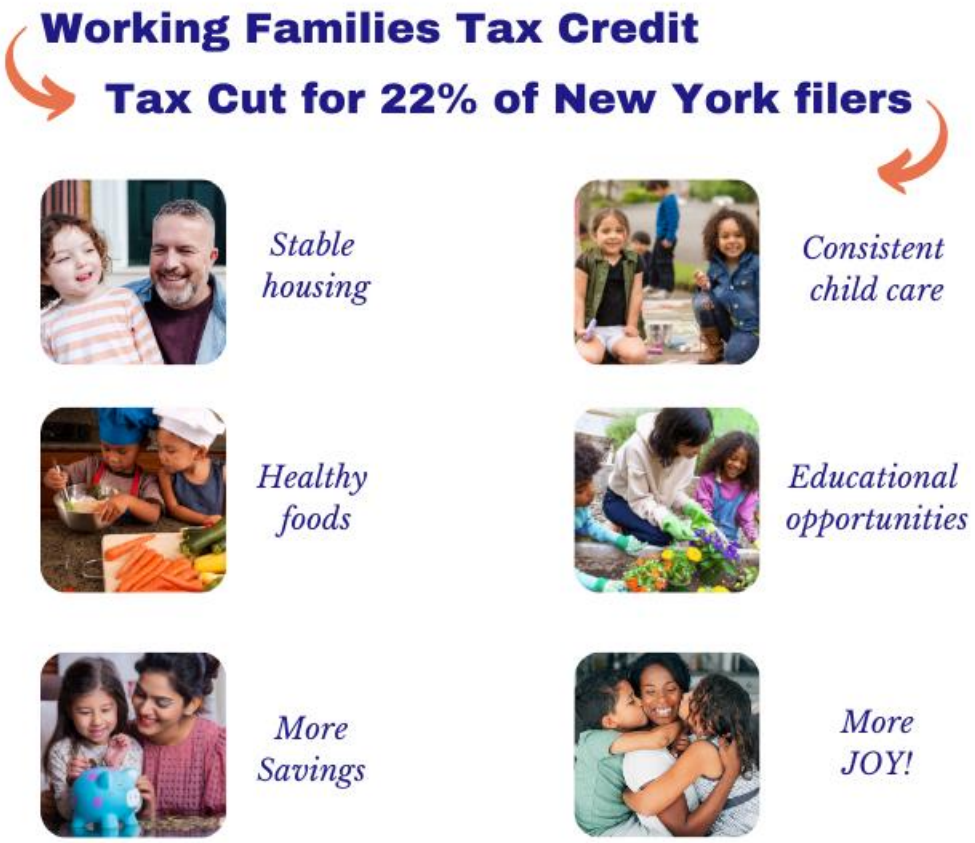
When fully implemented, the Working Families Tax Credit will bring tax cuts to 22% of all New York tax filers.

[26] See Schuyler Center for Analysis and Advocacy's State of New York Children 2024 Data Book

Conclusion

The Working Families Tax Credit is a bold way of transforming New York's approach to supporting families through the state's tax code. By consolidating three credits and exemptions into a new, straightforward credit, the proposed legislation simplifies New York's tax code while also providing greater support to families with children throughout the state. If additional savings are needed to ensure passage of this legislation, state leaders should also consider consolidating New York's Child and Dependent Care Credit into the Working Families Tax Credit. Doing so would continue to shift New York's tax code in a simpler and more progressive direction.

Tax policy can be devilishly complicated. This legislation would **make New York's tax code less complex and more supportive of families** throughout the state. **Passing the Working Families Tax Credit would be a landmark accomplishment for New York State in cutting poverty, building a more affordable New York, and making the state a better place to raise a family.**



Appendix: State Child Tax Credits (2023)

State	Refundable	Credit Amount	Eligible Ages	Income Information	Other Eligibility Requirements
California	Yes	Up to $1000 per family	Under 6	Full credit up to $25,000; reduced credit between $25,000 and $30,000	Open to children with ITIN; Must qualify for CalEITC; Must live in CA for more than half the year
Colorado	Yes	Range from $200 - $1200 per qualifying child 60% of federal credit)	Under 6	Full credit up to $25,000 (individual) and $35,000 (married); $600 up to $50,000/$60,000, $200 up to $75,000/$85,000	Children who would qualify for the federal CTC if they had a SSN qualify for the state CTC
Idaho	No	$205 per qualifying child	Under 17		Part-year residents receive a prorated credit; Only one taxpayer can claim each child
Maine	No	$300 per qualifying child and dependent	Under 17 (qualifying child) or under 19/under 24 if full time student/permanently disabled (qualifying dependent)	Full credit up to $200,000 (individual) and $400,000 (married); reduced by $7.50 per $1,000 over these levels	Must claim federal CTC; Prorated for non-resident and part-year resident taxpayers
Maryland	Yes	$500 per qualifying child	Under 6	Individuals up to $15,000	

Massachusetts	Yes	$180 for one qualifying dependent, $360 for two or more	Under 12/over 65/permanently disabled		Won't qualify if you are married filing separately
Minnesota	Yes	Up to $1750 per qualifying child	Under 18	Full credit up to $29,500 for single filers and $35,000 for couples; 6% phase out for one child, 10.5% phase out for multiple children	Not open to ITINs, prorated for part-year residents
New Jersey	Yes	Up to $1000 per qualifying child	Under 6	Full credit up to $30,000; reduced by $10 per $1,000 up to $80,000 ($200 for $60,000-$80,000)	Open to SSN and ITIN; prorated for part-year residents
New Mexico	Yes	Up to $600 per qualifying child	Under 17	Full credit up to $25,000; reduced credit up to $350,000	NM residents
New York	Yes	Greater of: 33% of the pre-2017 federal CTC or $100 per qualifying child	Under 17	Income phase-in until full credit at $9,000; Full credit up to $55,000 (married filing separately), $75,000 (individual), and $110,000 (married filing jointly)	Open to children with ITIN; Must qualify for federal CTC; Full-year NYS resident or married to a full-year NYS resident
Oklahoma	No	5% of federal CTC per qualifying child	Under 17	Full credit up to $100,000 (married filing jointly)	

Oregon	Yes	Up to $1000 per qualifying child	Under 6	Full credit to individuals or families up to $25,000, reduced credit for families up to $30,000	Open to ITINs
Utah	No	$1000 per qualifying child	Ages 1-3	Full credit up to $27,000 (married filing seperately), $43,000 (individual or HOH), $54,000 (married filing jointly)	
Vermont	Yes	$1000 per qualifying child	Under 5	Full credit up to $125,000; reduced by $20 for each $1,000 over this level	Prorated for part-year resident