

Reforming the Empire State Child Credit to Reduce Child Poverty in New York State

Irwin Garfinkel and Christopher Wimer (with thanks to Sophie Collyer,
Anastasia Koutavas, and Buyi Wang)

Center on Poverty and Social Policy

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Today's Presentation

- The US and New York are losing billions of dollars a year in productivity as a result of child poverty
- Investing in the youngest, low-income children is one of the smartest, highest return social investments government can make
- Tax credits targeted to the lowest income, youngest children yield the greatest bang for the buck.
- Right now, New York State's child tax credit is flawed in its design and is leaving out 40% of the highest need children who would benefit the most from this investment
- We've seen what is possible when CTCs are designed with these parameters in consideration through the federal CTC reform in the ARPA.
- There are numerous options to reform the ESCC to reduce the state's child poverty rate and put the state on the path to achieve the goal of the Child Poverty Reduction Act to cut child poverty in half by 2030.

Principles to Consider When Designing State Child Tax Credits

Full refundability



Children in families with no or low earnings are eligible for the full credit.

Per-Child Benefits



The full credit is made available to children regardless of family size or where they come in the birth order.

Indexed to Inflation



The value of the credit is indexed to inflation as to not erode the credit over time.

Young Child Bonus



A larger credit to children under age 6 is provided to target additional resources at a critical period of child development.

Monthly Payments



The credit is delivered in regular installments, rather than a once-per-year lump sum.¹⁹

Income Phase-outs



The same full credit is available to poor, working- and middle-class families. Weigh tradeoffs when considering if and when to phase out the credit for higher earning families.

Inclusivity



Children are included, regardless of immigration status, in credit eligibility.

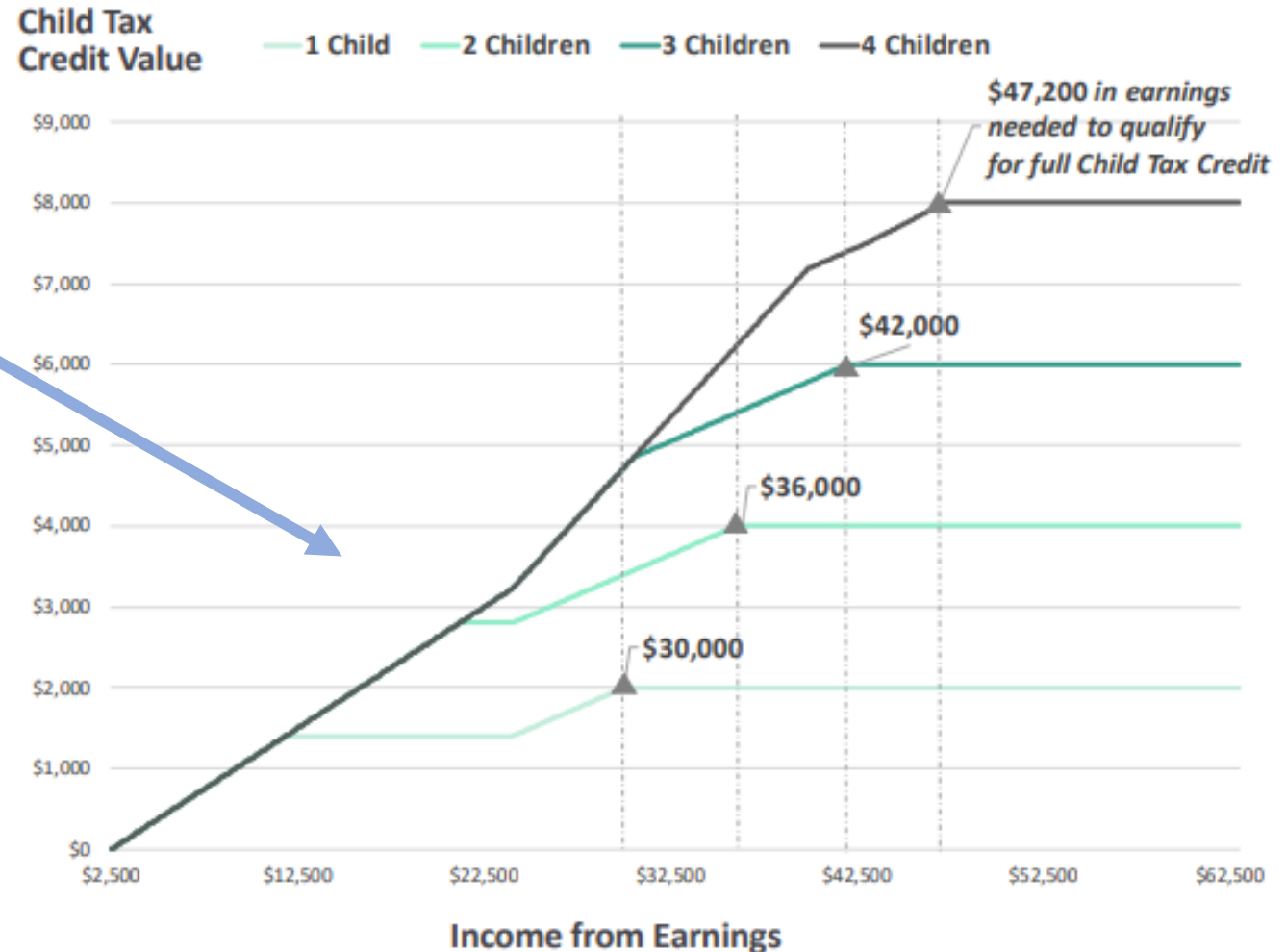
It is important to design policies with the highest impact for low-income families and children.

Federal Child Tax Credit

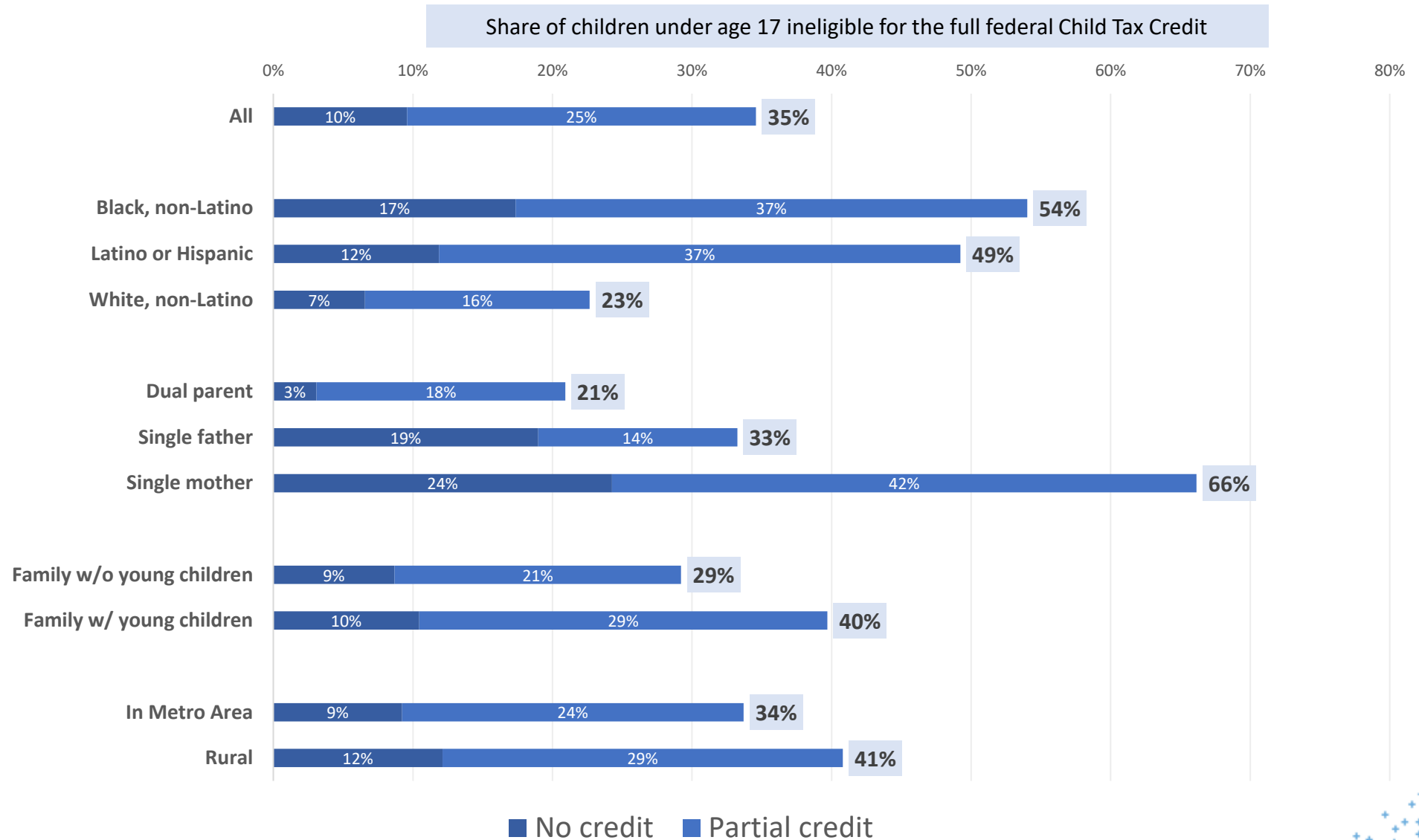
- Created in 1997 as a small, mostly non-refundable tax credit to help offset the cost of raising children; expanded over next 25 years
- ARP Expansion of 2021: Increased benefit size; made credit fully refundable, eliminating the credit phase-in and including the most disadvantaged children; delivered monthly
 - Reduced annual child poverty by 43% (to historic low of 5.2 percent)
 - Reduced food insecurity by 25%
 - Improved equity
 - Monthly child poverty rose by 41% between December 2021 and January 2022 when the expansion ended
- Post-ARP expiration : CTC reverts to prior law (i.e., lowest-income children left out; credit phases in with earnings; benefit levels reduced to maximum of \$2,000 per child; annual distribution). We refer to this credit structure as “partially refundable.”

Pre-ARP Federal Child Tax Credit

The federal credit phases in with earnings, so families don't receive the full credit until their earnings hit a certain level (which varies by family size)

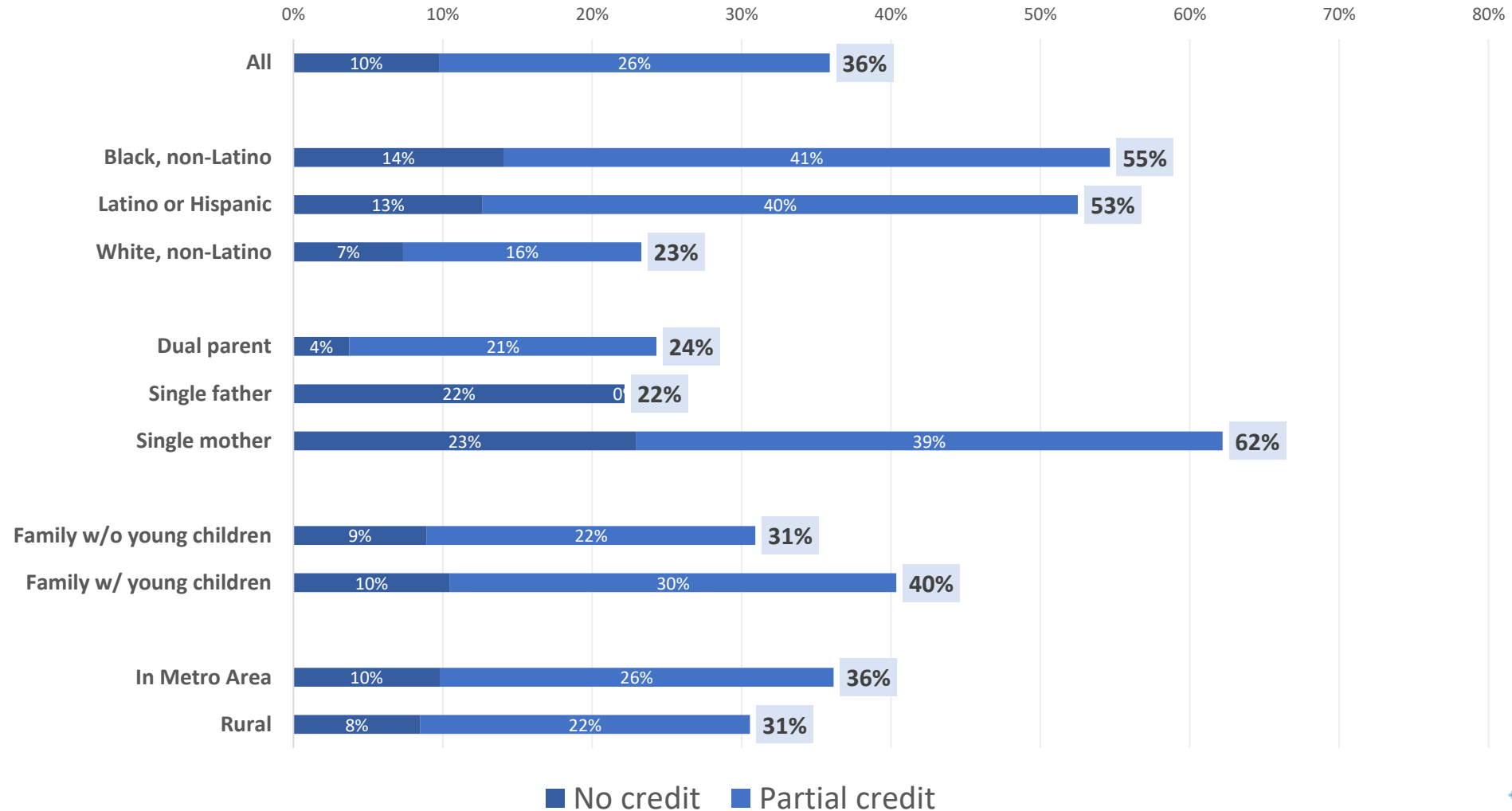


Federal Credit Structure “Leaves Behind” 1 of 3 children in the U.S.



Same patterns hold when looking the federal credit in New York State

Share of children in New York State under age 17 ineligible for the full federal Child Tax Credit



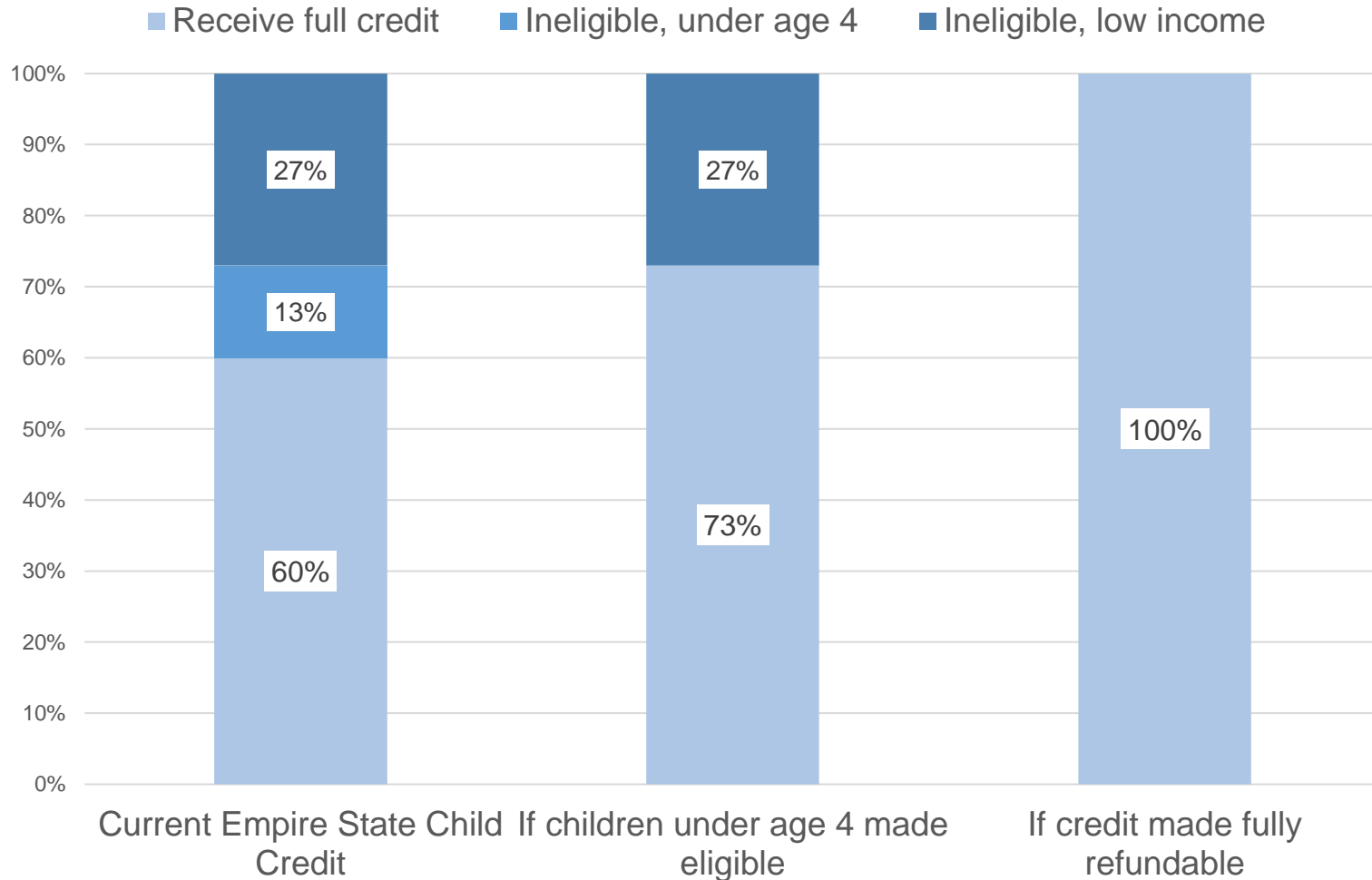
New York State and Empire State Child Credit

- Some states have their own Child Tax Credit, which is often linked to the federal credit. In New York, it's the **Empire State Child Credit (ESCC)**.
- The ESCC is a state child tax credit that amounts to 33% of the *partially-refundable* federal credit (with a maximum credit of \$330 per child) **or** \$100 per child.
 - NOTE: Percentages are based on federal structure prior to BOTH ARP and pre-ARP reforms (i.e., maximum benefit of \$1,000 per child).
- ESCC phases in with earnings, and phases out when income is greater than \$75k for single filers or \$110k for joint filers

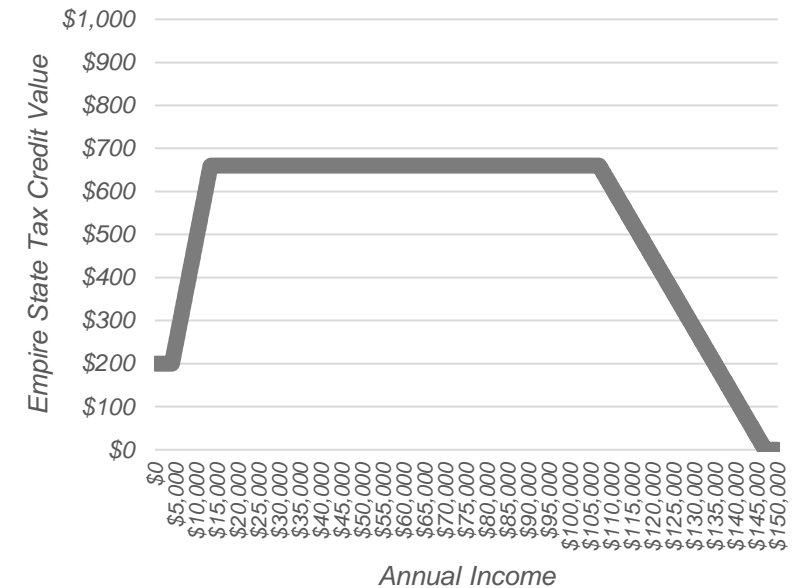
Gaps in the ESCC also “Leave Behind” 2 in 5 children in families with low- or moderate earnings

- Children under age 4 are ***not*** eligible
- Like the pre-ARP credit, lower-earning families receive less from the ESCC because of the phase in, earnings requirement, and partial refundability structure
- BUT: More inclusive of children without SSNs (because based on federal law prior to 2017)

40% of children in families with incomes below \$110k/\$75k receive **only partial credit** (ineligible for full credit) because their household is in the phase-in OR **no credit at all** because their earnings are too low or their children are too young



Example: ESCC for family of 4 with 2 children over four-years-old

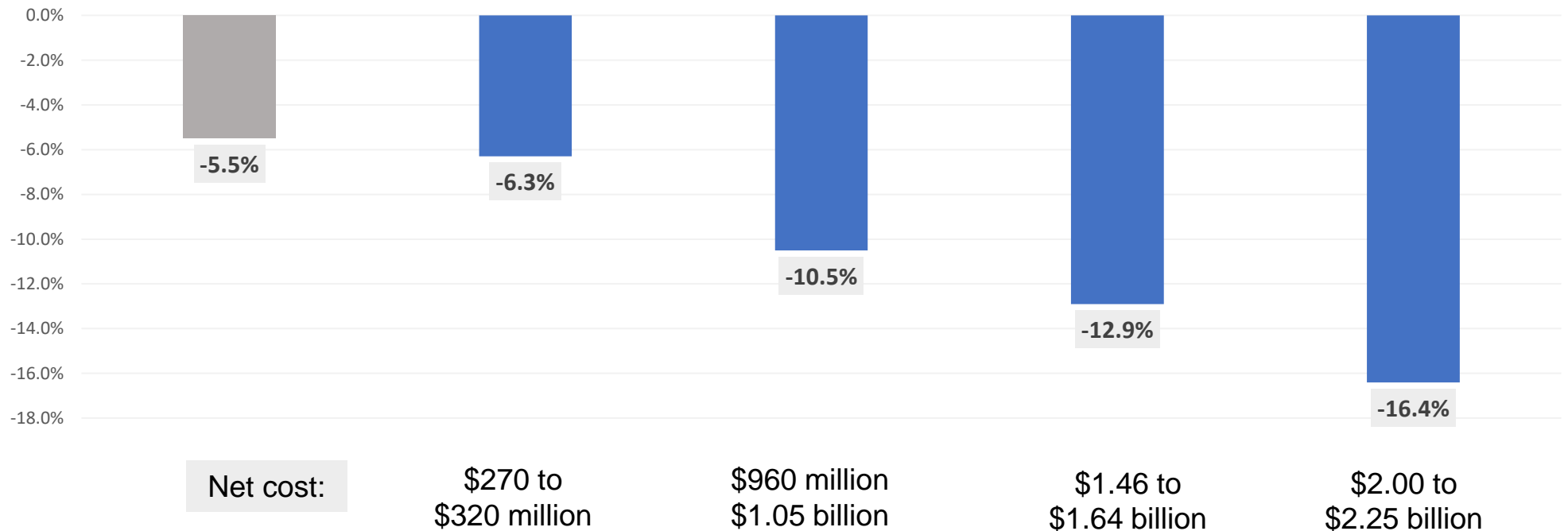


Potential anti-poverty effects of expansions to the Empire State Child Tax Credit, All children

Poverty rate

	Current ESCC	With fully refundable credit and no phase-in ...			
		\$330	\$1,000 younger, \$330 older	\$1,000 younger, \$660 older	\$1,000
Poverty rate w/o ESCC	16.6%	16.6%	16.6%	16.6%	16.6%
Poverty rate w/ ESCC	15.7%	15.6%	14.9%	14.5%	13.9%

Relative change



*Younger children include those under age 6, older children, those ages 6-16; cost ranges related to phase-out rate assigned to credit.

Potential anti-poverty effects of expansions to the Empire State Child Tax Credit

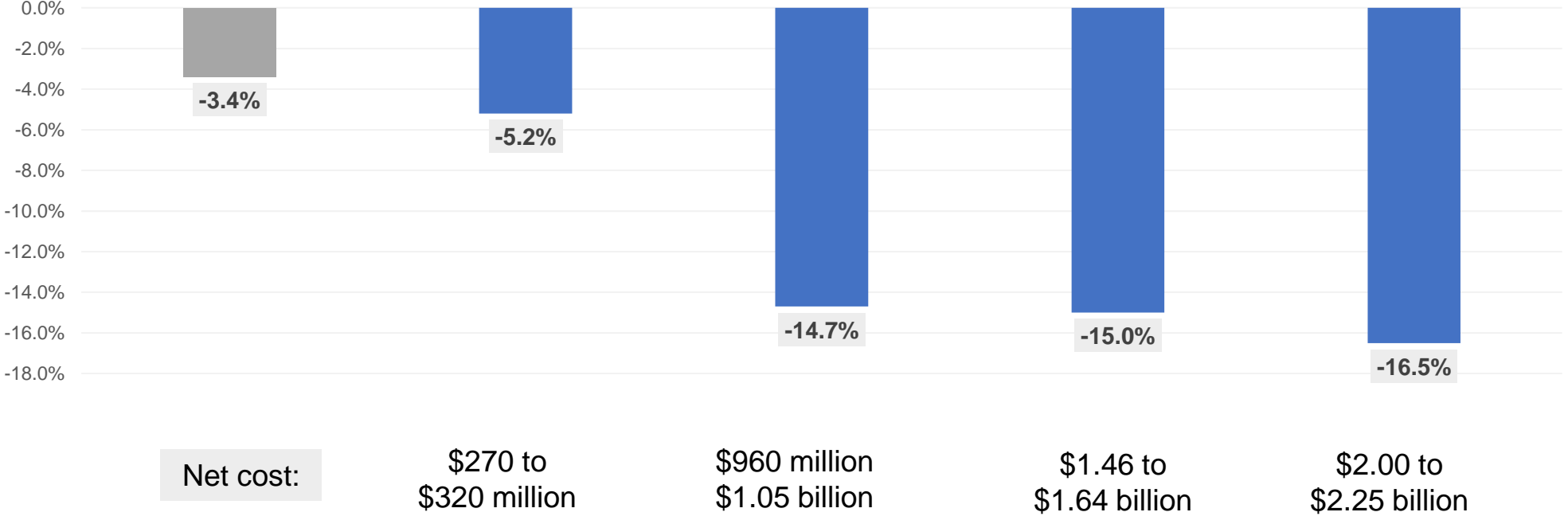
Children under age 6

Poverty rate

With fully refundable credit and no phase-in...

	Current ESCC	\$330	\$1,000 younger, \$330 older	\$1,000 younger, \$660 older	\$1,000
Poverty rate w/o ESCC	16.5%	16.5%	16.5%	16.5%	16.5%
Poverty rate w/ ESCC	15.9%	15.6%	14.0%	13.9%	13.7%

Relative change

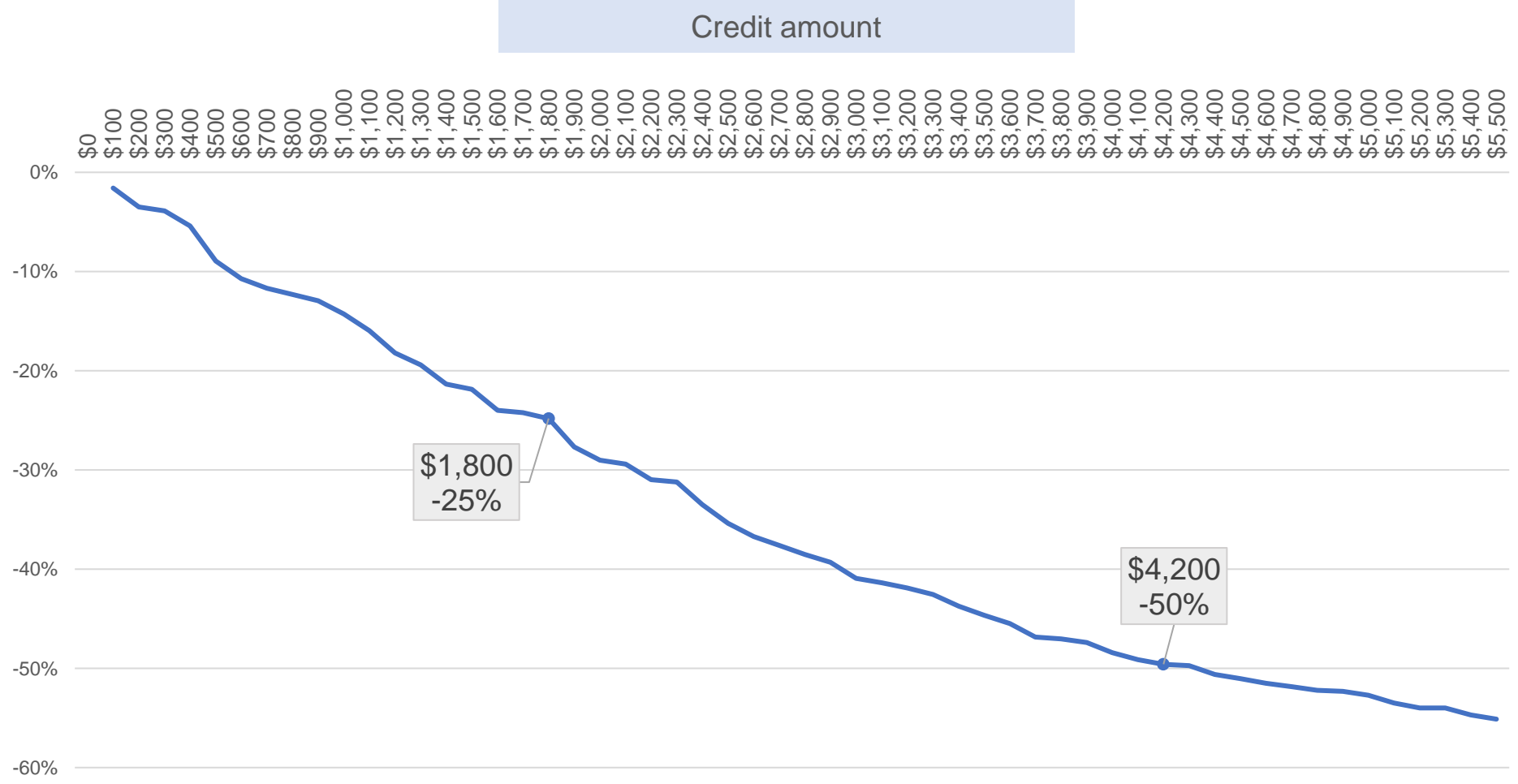


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What credit amounts could reduce child poverty in New York State by 25% or by 50%?

Example 1: Increase credit for all children

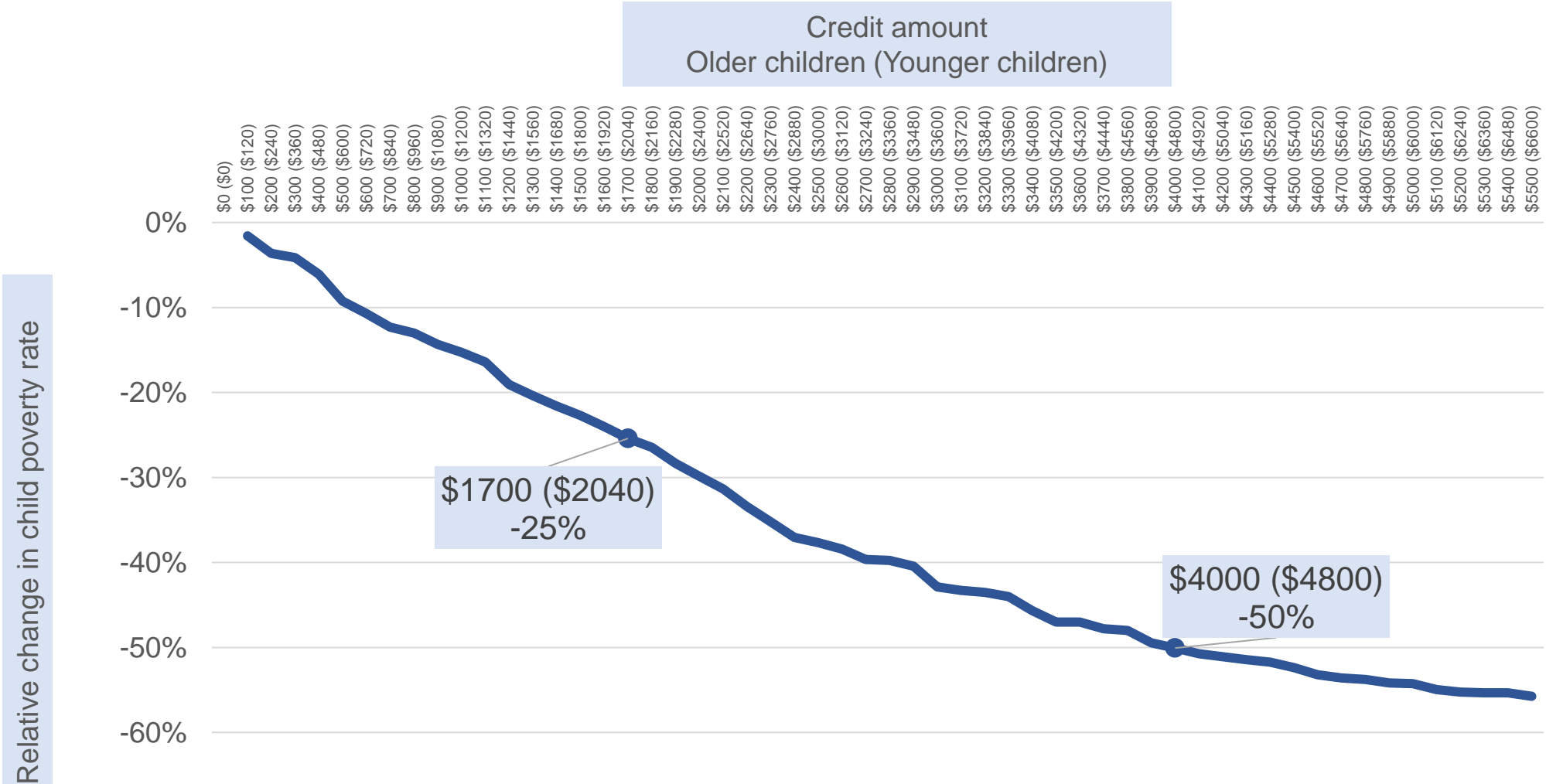
Relative change in child poverty rate



Source: CPSP & ITEP (2022)

What credit amounts could reduce child poverty in New York State by 25% or by 50%?

Example 2: Increase credit for all children (with higher credit targeted to youngest children)



Source: CPSP & ITEP (2022)

A Benefit Cost Analysis
Increasing the Empire State Child Credit
to \$1000 Per Child Age 0-17

Journal of Benefit Cost Analysis



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ARTICLE

The Benefits and Costs of a Child Allowance

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JEL classification: H53

Abstract

This article conducts a benefit-cost analysis of a child allowance. Through a systematic literature review of the highest quality evidence on the causal effects of cash and near-cash transfers, this article produces core estimates on the benefits and costs per child and per adult of increasing household income by \$1000, which can be used for any cash or near-cash program that increases household income. We then apply these estimates to three child allowance proposals, with the main proposal converting the \$2000 Child Tax Credit in the federal income tax code into a fully refundable and more generous child allowance of \$3600 per child ages 0–5 and \$3000 per child ages 6–17, as enacted for 1 year in the American Rescue Plan. Aggregate costs and benefits are estimated via micro-simulation. Our estimates indicate that making the \$2000 Child Tax Credit fully refundable and increasing benefits to \$3000/\$3600 would cost \$97 billion per year and generate social benefits of \$929 billion per year. Sensitivity analyses indicate that the results are robust to alternative assumptions and that each of the three child allowance proposals produces a very strong to an extraordinarily strong return for the U.S. population.

Garfinkel, I., Sariscsany, L., Ananat, E., Collyer, S., Hartley, R., Wang, B., & Wimer, C. (2022). ***The Benefits and Costs of a Child Allowance.*** *Journal of Benefit-Cost Analysis*, 1-28. doi:10.1017/bca.2022.15

Cash Allowances and Internal Improvements

Internal Improvements was a term used by the pre-Civil War Whig Party to describe investments in US infrastructure

- Roads, bridges, harbors, canals — the development of which support the economy

Education and health are also thought of as **internal improvements**: they are investments in our minds and in our bodies that have long-term benefits for society and the economy.

Economists of all stripes agree, for example, that public elementary and secondary education were and are a great investment in human capital.

The evidence on health insurance for children is nearly as strong.

While I have been proponent of child allowances for a long time, I thought the returns to cash would not be nearly as high as the returns to education and health. Research over time has shown I was wrong.

A child allowance is a great investment – in the same league as education and health!

It should also be thought of as an internal improvement, which supports society/the economy.

Expanding Empire State Tax Credit: Key Findings

- Extensive, high quality research finds that cash and near-cash benefits increase children's health, education, and future earnings, and decrease costs on healthcare, child protection, and crime
- The value to society that flows from these impacts is **over seven times** the annual costs
- Expanding the Empire State Tax Credit to \$1,000 per child for all children in New York State under 17, with the exception of high-income families, would cost about \$2.8 billion per year and would generate about **\$17 billion in benefits to society** per year

What kinds of monetary benefits (+) and costs (-) might we expect from expanding the Empire State Tax Credit?

	Direct Beneficiaries	Indirect Taxpayers	Total Society
Child allowance transfer	+	-	0
Increases in:			
Future earnings of children	+	0	+
Tax payments by children	-	+	0
Children's health and longevity	+	0	+
Parents' health and longevity	+	0	+
Avoided expenditures on:			
Children's and parents' health care	+	+	+
Crime (including victim costs of crime)	0	+	+
Child Protection Services	0	+	+
Other cash or near-cash transfers	-	+	0
Higher expenditures on:			
Transfer payments due to longevity increases	0	-	-
Increases in children's education attainment	0	-	-
Administrative costs	0	-	-
Tax distortion for beneficiaries	-	0	-
Decreased tax payments from parents	+	-	0
Tax distortion for taxpayers	0	-	-

Methods for Benefit-Cost Analysis

Systematic Literature Review: 3-stage process

- a. Internet search and references in papers
- b. Review data and methods
- c. Limit to quasi-experimental and experimental studies
- d. In total, identified 21 studies for comparative analysis

Standardizing impacts for low-income families

- a. Mean of estimates within study
- b. Mean of estimates across studies
- c. Per \$1,000 increase in HH income (in 2019 dollars) per year

Standardized benefits per year of \$1,000 increase in household income per year from core studies

Future earnings of children
Earnings increase \$86 for every \$1,000 of income

Involvement with child protections
0.23 p.p. reduction per \$1,000

Crime
0.009% reduction per \$1,000

Children's health and longevity	
Neonatal mortality 0.0001 p.p. reduction per \$1000	Health in childhood 0.02% increase per \$1000
Health in adulthood 0.037% increase per \$1000	Longevity 0.062 years increase per \$1000

Parent health
0.001% increase per \$1,000

Parent longevity
0.89% increase per \$1,000

Translating benefits of \$1,000 increase in household income to aggregate benefits to society

Future earnings of children
\$5.2 billion in benefits to society

Involvement with child protections
\$90 million in benefits to society

Crime
\$3.3 billion in benefits to society

Children's health and longevity
Neonatal mortality, health in childhood, health in adulthood, longevity, and decreased spending on health
\$10.0 billion in benefits to society

Parent health
<i>Health, longevity, and decreased spending on health</i>
\$381 million in benefits to society

Putting it all together: Aggregate annual benefits and costs of a \$1,000 child allowance (present discounted value using mean impact estimates, in \$millions)

	Direct	+	Indirect	=	Total
	Beneficiaries		Taxpayers		Society
Child allowance transfer	\$ 2,000		-\$ 2,000		\$ 0
Increased future earnings of children	\$ 4,966		\$ 0		\$ 4,966
Increased future tax payments by children	-\$ 1,390		\$ 1,390		\$ 0
Decreased neonatal mortality	\$ 42		\$ 0		\$ 42
Increased children's health and longevity	\$ 9,138		\$ 0		\$ 9,138
Increased parents' health and longevity	\$ 627		\$ 0		\$ 627
Avoided expenditures on other cash or near-cash transfers	-\$ 90		\$ 90		\$ 0
Avoided expenditures on child protection	\$ 0		\$ 85		\$ 85
Avoided expenditures on crime	\$ 0		\$ 951		\$ 951
Decreased victim costs of crime	\$ 0		\$ 2,328		\$ 2,328
Increased costs of children's education	-\$ 1,225		-\$ 293		-\$ 1,519
Avoided expenditures on children's health care costs	\$ 34		\$ 273		\$ 307
Avoided expenditures on parents' health care costs	\$ 0.5		\$ 3.9		\$ 4.4
Increased payment due to increased children's longevity	\$ 932		-\$ 932		\$ 0
Increased payment due to increased parents' longevity	\$ 128		-\$ 128		\$ 0
Decreased tax payments from parents	\$ 36		-\$ 36		\$ 0
Administrative costs	\$ 0		-\$ 8		-\$ 8
Excess burden for taxpayers	\$ 0		-\$ 279		-\$ 279
Total	\$ 15,197		\$ 1,446		\$ 16,644

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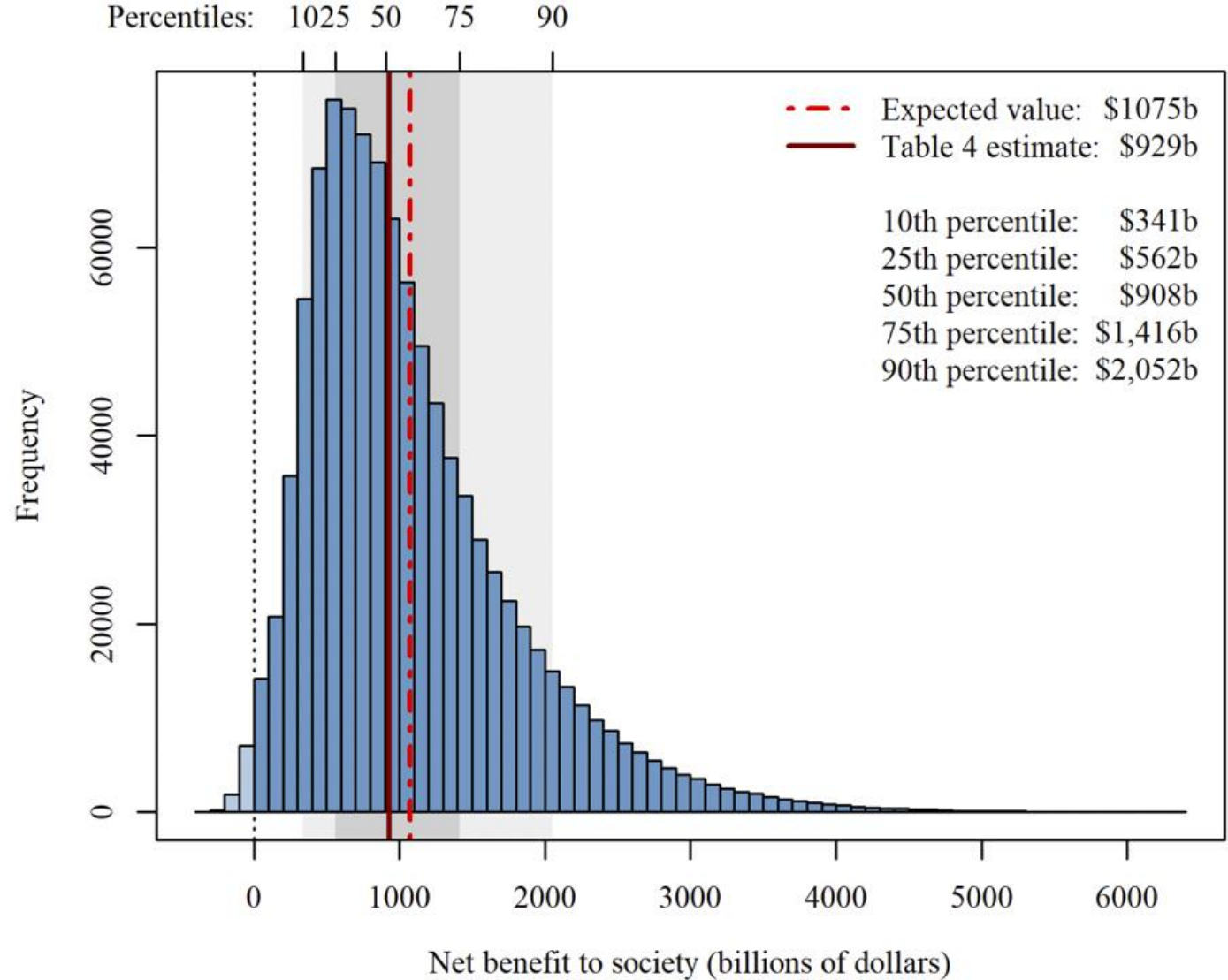
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Simulation-based sensitivity estimates by parameter choices and study estimates: national estimate



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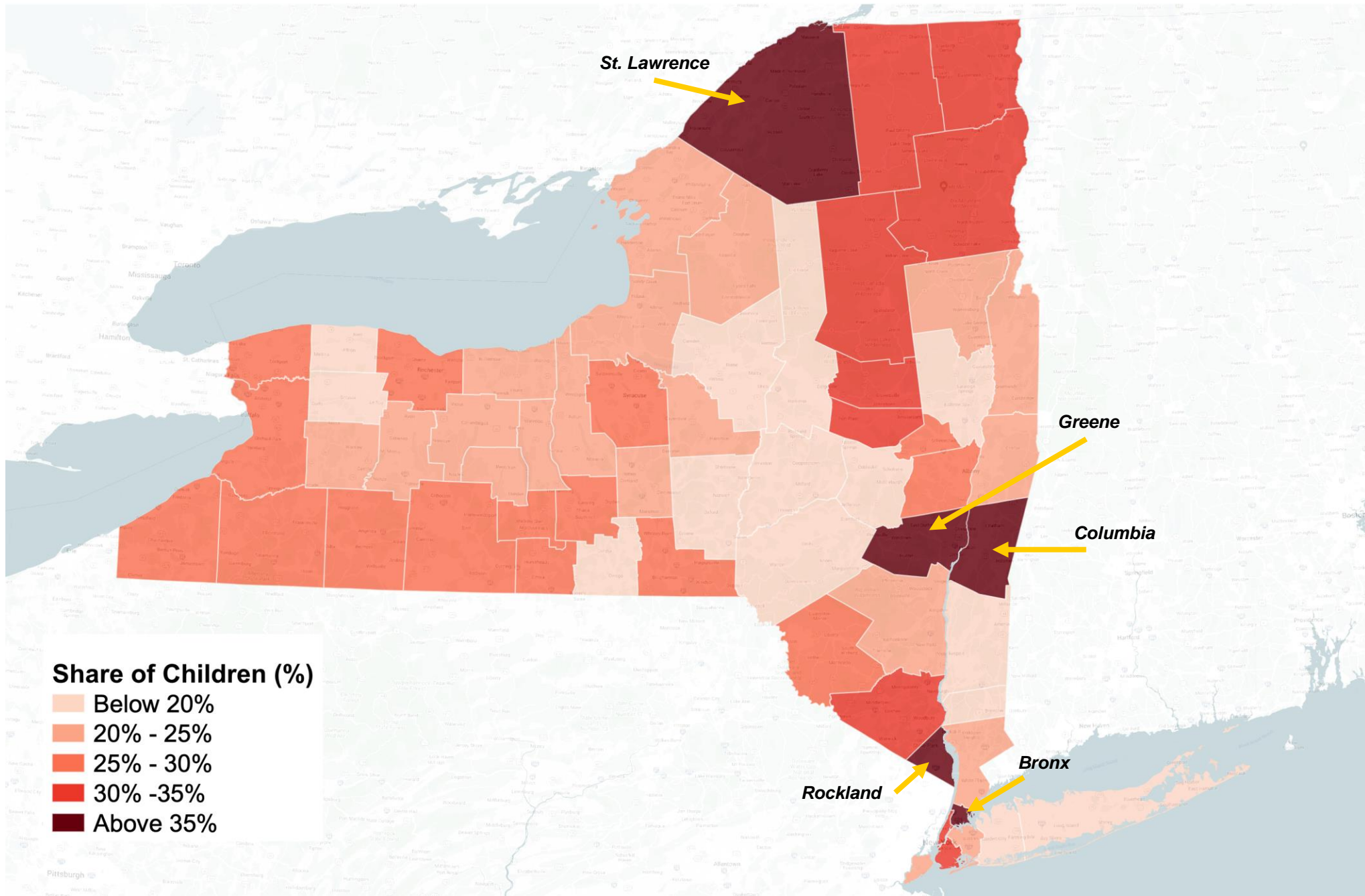
Concluding Points

- **Poverty is costly** – New York State loses billions of dollars a year in productivity due to child poverty
- **Targeted investments can reduce poverty and provide economic benefits to society** – Research shows that investing in the youngest, low-income children is one of the smartest, highest-return social investments government can make
- **Cash transfers via tax credits can have big poverty-reduction impacts** – Tax credits targeted to the lowest income, youngest children yield the greatest bang for the buck.
- **New York's current child tax credit could reduce poverty further if reformed** – the Empire State Child Credit leaves out 40% of the highest need children who would benefit the most from this investment
- **The larger, more inclusive the credit, the greater the poverty reduction** – There are several options for reforming the ESCC that would reduce the state's child poverty rate, including raising the value of the credit, making it fully refundable, and more
- **Child credit is a very effective poverty-reduction tool** – Because of its administrative efficiency, effectiveness in transferring income to families in need, and overall returns to society, an inclusive child tax credit should be a significant component part of any large-scale effort significantly reduce poverty

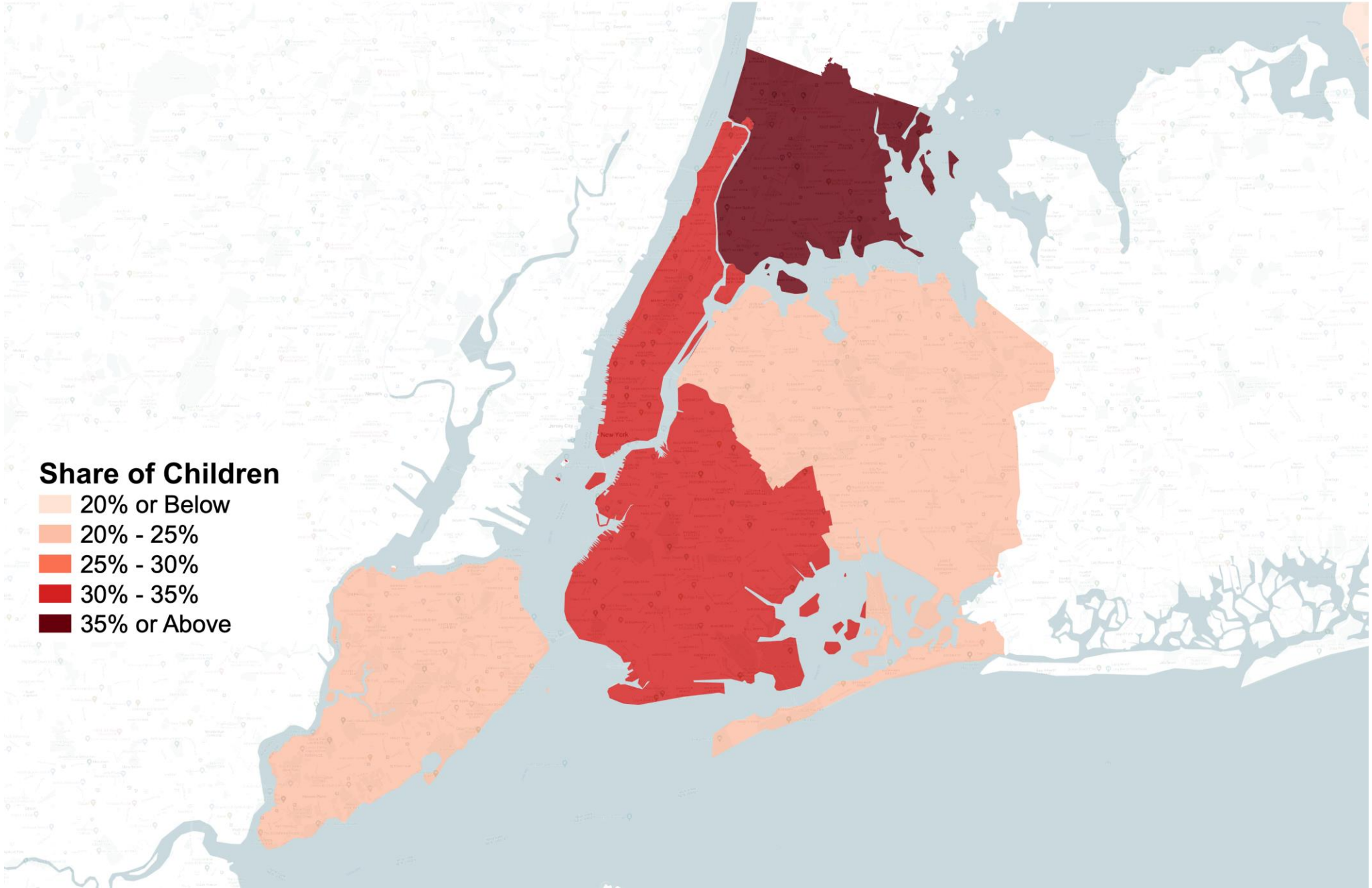
THANK YOU

Appendix:

Share of Children Ages 4-16 Ineligible for the Full Empire State Child Credit



Share of Children Ages 4-16 Ineligible for the Full Empire State Child Credit



Share of Children

- 20% or Below
- 20% - 25%
- 25% - 30%
- 30% - 35%
- 35% or Above

ESCC Phaseout Options (One Child, Joint Filer)

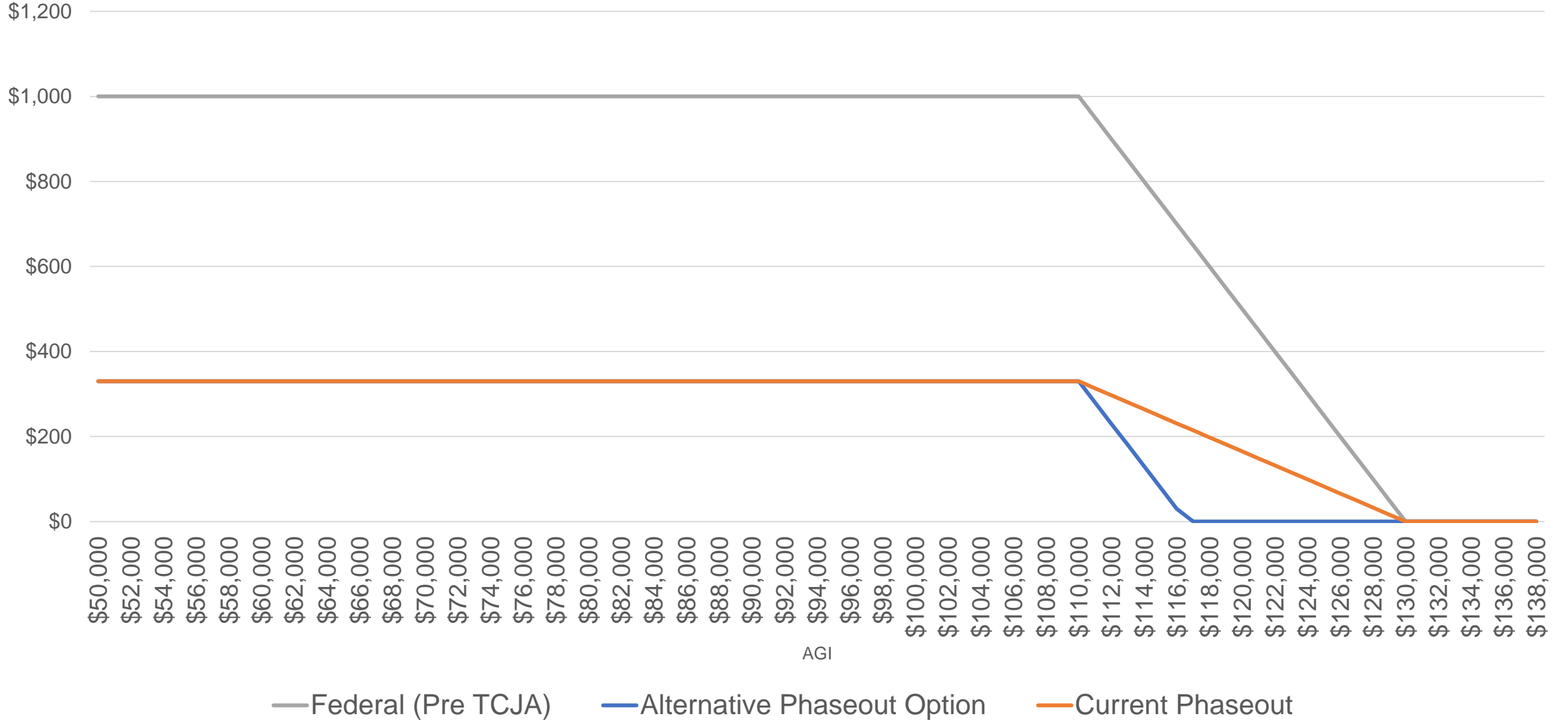


Table A. Present discounted value of monetary benefits and costs for single child, single parent low-income families per \$1,000 increase in household income: Using mean impact estimates

	Direct beneficiaries	+	Indirect taxpayers	=	Total society
Increase in household income	1,000		-1,000		0
Increased future earnings of children	1,222		0		1,222
Increased future tax payments by children	-342		342		0
Decreased neonatal mortality	10		0		10
Increased children's health and longevity	2,250		0		2,250
Increased parents' health and longevity	378		0		378
Avoided expenditures on other cash or near-cash transfers	-22		22		0
Avoided expenditures on child protection	0		21		21
Avoided expenditures and victim costs of crime	0		768		768
Increased costs of children's education	-302		-72		-374
Avoided expenditures on children's health care costs	8		67		76
Avoided expenditures on parents' health care costs	0.29		2.35		2.64
Increased payment due to increased children's longevity	229		-229		0
Increased payment due to increased parents' longevity	77		-77		0
Decreased parent tax payment	17		-17		0
Administrative costs	0		-4		-4
Excess burden for taxpayers	0		-298		-298
Total	4,527		-476		4,051

Valuing and discounting the impacts

- a. Children benefit from ages 9-78. Parents benefit from ages 38-78
- b. Social discount rate of 3%
- c. Value of statistical life of \$9.9 million
- d. Value of excellent health in a year= \$128,000 per year
- e. Healthcare expenditure elasticity of 0.84
- f. Excess burden is 40% of net change in taxes

Going from Table A to Table 4

- a. Number of children and parents from CPS data
- b. Total child allowances enjoyed by children and parents from CPS data
- c. Impacts decline as income increases
 - i. $< \$50,000$ - full benefit
 - ii. $\$50,000 - \$100,000$ - reduced benefit
 - iii. $> \$100,000$ - no benefit

Table 3. Standardized benefits of \$1,000 increase in household income per year from supplementary studies

Panel B. Supplementary Impact Studies					
<i>Author</i>	<i>Impact</i>	<i>Author</i>	<i>Impact</i>	<i>Author</i>	<i>Impact</i>
Birthweight		Child's educational attainment		Child high school diploma	
Hoynes et al. (2015)	0.54%*	Aizer et al. (2016)	0.31%	Akee et al. (2010)	0.29%+
Kehrer & Wolin (1979)	0.16%+	Akee et al. (2010)	0.06%	Bastian & Michelmores (2018)	0.01%+
Almond et al. (2011)	1.19%+	Bastian & Michelmores (2018)	0.01%+	Maxfield (2015)	0.96%*
Markowitz et al. (2017)	0.82-1.63%*	Maxfield (2015)	0.08%	Michelmores (2013)	0.91%*
Parent mental health		Michelmores (2013)	0.25%*	Thompson (2019)	0.08%*
Boyd-Swan et al. (2016)	1%+	Thompson (2019)	0.04%*		
Gangopadhyaya et al. (2020)	26%*				

*Results were statistically significant at the 5% level or better

Table 6. Sensitivity analysis result (in \$billions): national estimate

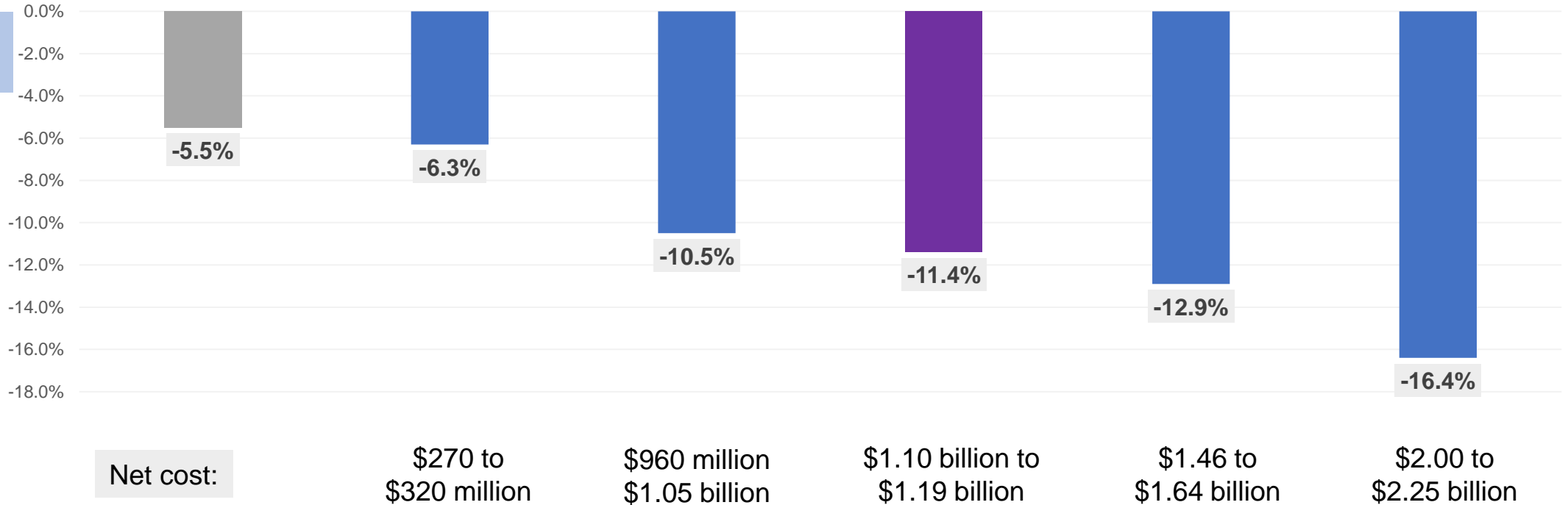
	Total benefit to society (billions of dollars)	
	Lower	Upper
A. One-at-a-time variations		
Excess burden proportion {0.5, 0.3}	21.0	21.1
Share of benefits/costs to co-parents {0*, 1}	21.0	21.3
Health expenditure elasticity {0.19, 1.48}	20.8	21.3
Share of future earnings as direct benefit {0.75*, 1}	21.0	22.6
Declining long-run benefit range {\$37.5-\$75k, \$62.5-125k}	17.5	23.5
Value of a statistical life {\$4.6m, \$15.0m}	15.5	26.4
Discount rate {0.05, 0.01}	11.3	46.0
B. Multiple variations	Lower	Upper
Study estimates used by outcome {min, max}	13.8	43.6
Extreme combinations of parameter/study estimates[†]	5.8	158.3

Potential anti-poverty effects of expansions to the Empire State Child Tax Credit

Poverty rate

	Current ESCC	With fully refundable credit and no phase-in ...				
		\$330	\$1,000 younger, \$330 older	\$1,200 younger, \$330 older	\$1,000 younger, \$660 older	\$1,000
Pre ESCC	16.6%	16.6%	16.6%	16.6%	16.6%	16.6%
With ESCC	15.9%	15.6%	14.9%	14.8%	14.5%	13.9%

Relative change



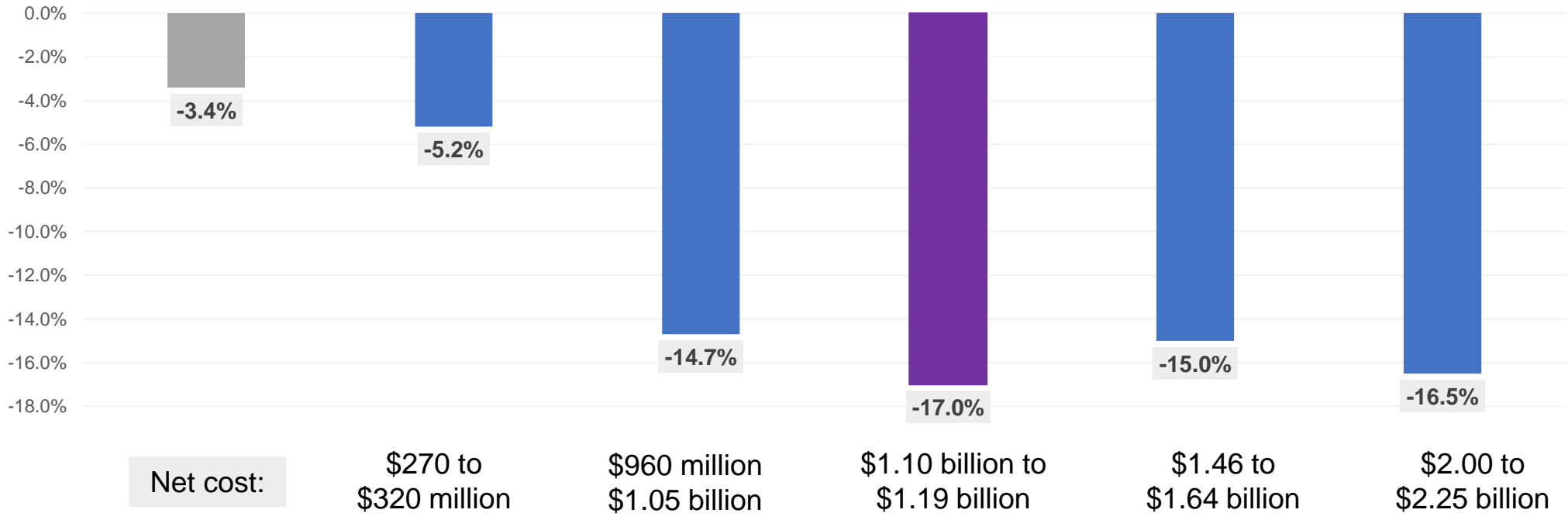
*Younger children include those under age 6, older children, those ages 6-16; cost ranges related to phase-out rate assigned to credit.

Potential anti-poverty effects of expansions to the Empire State Child Tax Credit Children under age 6

Poverty rate

	Current ESCC	With fully refundable credit and no phase-in...				
		\$330	\$1,000 younger, \$330 older	\$1,200 younger, \$330 older	\$1,000 younger, \$660 older	\$1,000
Pre ESCC	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%
With ESCC	15.9%	15.6%	14.0%	13.6%	13.9%	13.7%

Relative change



*Younger children include those under age 6, older children, those ages 6-16; cost ranges related to phase-out rate assigned to credit.