Family Economic Stability: Work Supports and Tax Credits

The Issue
Financial stability enables families to access safe housing, healthy foods, and other necessities, to engage fully in their communities, and to plan for the future. However, too many families with young children in the United States face persistent financial hardship, impacting their health and well-being.

Why It’s Important
In 2017, nearly three-quarters of low-income families with children under age 6 reported problems paying for housing, health care, utilities, or food. While national unemployment rates are low, wages for low- and moderate-wage workers have been stagnant, or even declining, for decades. Financial hardship and poverty can negatively affect the cognitive, behavioral, social, and emotional development of children and the mental health of parents. Therefore, policies that support education and employment and boost wages for parents can improve family economic stability and children’s health.

Considerations for State Policymakers
Various federal programs provide resources to states and families to support economic security. The Workforce Innovation & Opportunity Act (WIOA) and the Carl D. Perkins Career and Technical Education Act provide federal money to all states to support employment and training services and adult basic education. States have significant discretion in allocating these funds and designing programs to meet their local needs. In addition, federal tax credits—the Earned Income Tax Credit, Child Tax Credit, and Child and Dependent Care Credit—lift millions of eligible families out of poverty. Some states have implemented similar state tax policies to promote work and boost income for families with young children.

1. Support Education and Employment for Parents and Caregivers
Education and employment support programs are most effective when they allow parents to learn new skills in high-demand industries and provide connections to jobs with living wages and schedules that account for the needs of families with young children. Key considerations for states in designing such programs include:

- Prioritize equity and diversity in state technical education and higher education plans.
- Increase access to financial and wraparound support services to support learning parents.
- Build and expand on “two-generation” policy approaches that support parents and their children simultaneously as Connecticut did through a pilot program to academic and job readiness support services across two generations in the same household.

2. Provide Tax Credits to Low- and Moderate-Income Working Families
Twenty-nine states and the District of Columbia have state EITCs. A robust body of research demonstrates that the EITC promotes labor market entry, boosts income, and

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The federal EITC is a refundable tax credit for people who earn less than $55,000 annually. In 2015, 70% of EITC recipients made less than $25,000.

In 2016, the average EITC benefit for families with children is $2,500, lifting 6.5 million people out of poverty, including 3.3 million children.

The severity of poverty was reduced for an additional 21.2 million families, including 7.7 million children.

The EITC has also been shown to improve maternal and infant health, family economic security, and children’s educational performance.
reduces poverty while reducing racial disparities in low birthweight, and improving school performance and educational attainment among children. Key considerations for designing a state EITC include:

- **Consider making the credit fully refundable**, which puts extra money into the hands of low-income working families whose credit amount is higher than their tax liability. Nonrefundable credits offer less value to families with very low incomes because they have little to no tax liability. Twenty-three states have a fully refundable credit.

- **Maximize the value of the credit** since more generous credits provide greater boosts to family income and are associated with greater impacts, such as improvement in birth outcomes. State EITCs range from 3 percent of the federal credit in Montana to 85 percent of the federal credit in California. South Carolina has a nonrefundable tax credit that will rise to 125 percent of the federal credit in 2023.

- **Promote utilization through education and awareness campaigns and free tax preparation services** because many people eligible for both the federal and state EITCs do not receive it. To address this, California’s Department of Community Services & Development provides up to $2 million annually to community organizations to increase awareness and use of the EITC. The Internal Revenue Service recently granted $24 million to agencies across the nation to provide free tax preparation help, which can be leveraged to increase state and federal EITC claiming.

### 3. Provide Tax Credits to Families to Care for Children and Dependents

Six states offer Child Tax Credits that build on the federal credit, ranging in value from $100 to $600 per child, and in two states, the CTC is fully refundable. Twenty-three states provide state Child and Dependent Care Tax Credits, ranging from 7 percent to 110 percent of the federal credit—based on family income, and in 11 states, CDCTCs are partially or fully refundable. Key considerations for designing or expanding state CTCs and CDCTCs include:

- **Structure of the tax credit** as refundable or nonrefundable. Fully refundable tax credits have larger anti-poverty effects, while nonrefundable credits are rarely claimed by the lowest income families because their tax liability is so low. In Oklahoma, a state CTC is available to all families making under $100,000 per year and is 5 percent of the federal credit or up to $150 per child. It is nonrefundable.

- **Value of the credit**, which can increase in generosity as incomes decrease. In Iowa, the CDCTC is fully refundable and ranges from 30 percent of the federal credit for families making up to $45,000 per year and 75 percent of the federal credit for families making under $10,000 per year.
Endnotes


