



## Testimony for the Joint Legislative Budget Hearing on Taxes, 2022-23 Executive Budget Proposal

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The Center on Poverty and Social Policy at Columbia University thanks the chairs and the members of the respective committees for the opportunity to submit testimony on the 2022-2023 New York State executive budget. Our center produces cutting-edge research to advance our understanding of poverty and the role of social policy in reducing poverty and promoting opportunity, economic security, and individual and family wellbeing in New York and throughout United States. We have a long history of examining the impacts that reforms to the federal Child Tax Credit and complementary state credits could have on family income, child poverty, and longer-term child outcomes.<sup>1</sup> We have studied the Empire State Child Credit extensively, and we are pleased to submit testimony discussing possible impacts that reforming the Empire State Child Credit could have on child poverty and child well-being in New York State.

New York State is a leader when it comes to providing tax credits to families with children, the Empire State Child Credit being a prime example of the state's initiative in this area. The state established the Empire State Child Credit in 2006 to complement the federal Child Tax Credit, and no other state had such a credit at the time. There are, however, substantial gaps in coverage left by the Empire State Child Credit: **(1)** it does not reach all children in families with low incomes; **(2)** children under age four are entirely ineligible; and **(3)** Black and Latino children are disproportionately ineligible for the full credit. These gaps compromise the credit's antipoverty impacts and mean that children in poverty are not realizing the same income gains associated with the credit as their higher-income peers.

This testimony highlights the existing research on the role that increases in income play in improving child well-being, particularly for younger children and those in poverty (i.e., those currently ineligible for full credit). We also demonstrate how reforming the state credit by **decoupling it from earnings,**<sup>2</sup> **expanding eligibility to children under age four, and increasing credit levels** (all reforms proposed in [S.5866/A.3146A](#)) would enable it to benefit these populations and reduce the state's child poverty rate. Lastly, we show how the benefits of such an expansion would far outweigh the costs through long run through improvements in children's health and future earnings, decreases in spending on the criminal justice system, and several other benefits.

**Overall, our testimony shows how the well-designed reforms to the Empire State Child Credit highlighted above and included in S.5866/A.3146A would:**

- **Address the unequal coverage and inequities produced by the credit's current design, allowing it to reach the more than 1 million children currently left behind.**
- **Meaningfully reduce the child poverty rate and play a key role in meeting the state's goal to cut child poverty by half in the next ten years, reducing the child poverty rate by 40% when paired with the expanded federal Child Tax Credit.**
- **Make good economic sense given its benefits to New York State as a whole.**

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<sup>1</sup> For all of our work on the Child Tax Credit and related state credits, visit: <https://www.povertycenter.columbia.edu/child-tax-credit-archive>.

<sup>2</sup> For families below the current phase-out thresholds of \$110,000 for joint filers and \$75,000 for single filers.

## **Increases in family income improve short- and long-term outcomes for children.**

A large body of research shows that children who grow up in families with higher incomes perform better across a host of measures of both short- and long-term development and well-being.<sup>3</sup> And a smaller but growing body of literature attempts to understand whether these relationships are causal, given the fact that lower- and higher-income families may differ on various fronts besides income alone. Most of these studies use so-called “natural experiments,” which attempt to identify quasi-random variation in income to see whether those changes in income have a direct impact on important child outcomes. This growing literature is so far consistent in finding that enhanced incomes and reduced poverty causally result in improvements in children’s short- and long-term development and well-being.<sup>4</sup>

There are two primary channels through which increases in income are thought to impact children’s outcomes.<sup>5</sup> The family stress channel posits that the absence of resources increases stress, which compromises healthy parenting and other family relationships, resulting in worse child outcomes. The family resources channel posits that increased income allows parents to purchase or invest in various things that enhance child development and well-being (e.g., books, toys, enriching activities, academic supports, safer neighborhoods, etc.). Each channel assumes that an increase in income would change aspects of the home environment in the shorter term, and that these effects would accumulate over time into more positive child outcomes. The evidence also shows that income can improve children’s outcomes at all ages, but that early childhood is a particularly sensitive period where income can play a critical role.<sup>6</sup>

## **The Empire State Child Credit increases the family income of many children in New York, but those who would benefit from it the most are ineligible for the full credit.**

The Empire State Child Credit complements the federal Child Tax Credit by providing additional income support beyond what families receive through the federal tax code. The federal Child Tax Credit provides families with a maximum value of \$2,000 per child, and The Empire State Child Tax Credit provides families with up to \$330 for children ages 4 to 17.

While the Empire State Child Credit provides an added benefit to many families receiving the full federal credit, there are substantial gaps in coverage left by the federal credit that are replicated by the Empire State Child Credit. Approximately one out of every three children live in families with incomes too low to receive the full federal credit, and one in ten children did not qualify for federal credit at all.<sup>7</sup> (There is an ongoing push to carry forward the expansions to the federal Child Tax Credit made in 2021 that addressed these gaps<sup>8</sup>). Similar to the federal credit, the way that the Empire State Child Tax Credit is currently structured leaves gaps in coverage that exclude a sizable portion of the child population of New York State.

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<sup>3</sup> Brooks-Gunn and Duncan, 1997; Chaudry and Wimer, 2016

<sup>4</sup> Duncan, Morris and Rodrigues, 2011; Wimer and Wolf, 2020; Garfinkel et al., 2021

<sup>5</sup> National Academy of Sciences (2019).

<sup>6</sup> Duncan, Morris and Rodrigues, 2011; Wimer and Wolf, 2020;

<sup>7</sup> Collyer, Harris, and Wimer, 2019.

<sup>8</sup> In 2021, the federal Child Tax Credit was temporarily expanded to include the one-third of all children formerly left out; increase benefit levels (with an extra supplement for young children); and to pay half of the credit out in regular monthly installments. As of now, these changes have not been extended through 2022 and the federal Child Tax Credit will soon revert to its pre-pandemic parameters.

Our analyses show that **40% of children in families with incomes below \$110,000<sup>9</sup> are ineligible for the full Empire State Child Credit because they are either low income or under age four (Table 1).**<sup>10</sup> This translates to more than 1 million children in the state being ineligible for the credit for either of these reasons.

**Table 1.** Share of children eligible for the full Empire State Child Credit (restricted to families below the Empire State Child Credit phaseout thresholds)

Receiving the full credit	60%
Ineligible, low-income	27%
Ineligible, under age 4	13%

**Source:** Produced by the Center on Poverty and Social Policy at Columbia University using the 2017-2019 Annual Social and Economic Supplement to the Current Population survey, retrieved from IPUMS-CPS, University of Minnesota, [www.ipums.org](http://www.ipums.org).

**Note:** These results are calculated when restricting to children in two-parent families with incomes below \$110,000 and children in single-parent families with incomes below \$75,000.

Younger children (under age 4) are excluded from the Empire State Child Credit altogether due to their age. Children are also left out from the full credit due to their family income level. Children in lower-income families may potentially be able to receive a partial credit instead, but they do not receive the full credit because the credit amount is tied to earnings.<sup>11</sup> **Put simply, the children who would benefit the most from the full credit – younger children and children in families with lower incomes– are not eligible for it.** In addition to the age restrictions that exclude young children, this is due to the fact that the credit amount a family receives is dependent on their earnings and they cannot qualify for the full credit until their earnings reach a certain level.

The structure of the federal Child Tax Credit and Empire State Child Credit mean that many families experience a double blow at tax time – they are ineligible for the full federal credit *and* the full state credit. This includes many families who lost income because they were laid off, thus the structure of these credits further compounds economic hardship. And many children whose parents are disabled or who are being cared for by grandparents are not able to fully benefit from these credits, again showing how the structure of these credits further compound trying economic circumstances

### **Decoupling the credit from earnings is key to maximizing its antipoverty impacts.**

Figure 1 depicts the value of the Empire State Child Credit that a two-child, two-parent family with one older child and one younger child<sup>12</sup> is eligible for based on their annual income under current law (red line). We show two alternative scenarios that would address existing gaps in coverage: **(1)** if children under age 4 were made eligible (dashed green line), and **(2)**, if children under age four were made eligible *and* the credit amount was not contingent on earnings levels for families with incomes below the credit’s current phaseout thresholds (solid green line). In other words, if families were able

<sup>9</sup> Or \$75,000 in the case of single-parent households - these are the points at which the credit begins to phase out for higher-income families.

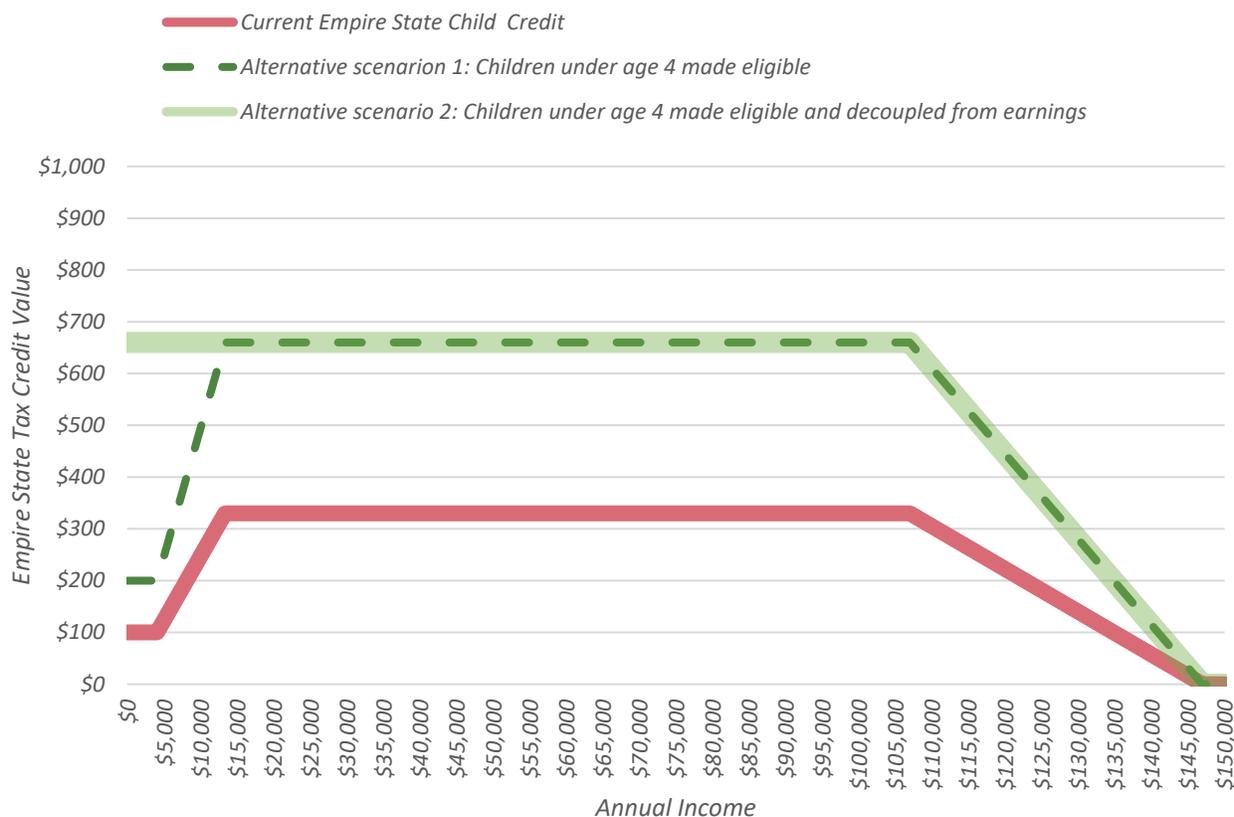
<sup>10</sup> Note that this estimate and all other estimates presented in this testimony are calculated with data representative of the state before the pandemic and are thus representative of the credit’s coverage and the impact of the reform in more stable economic circumstances and not necessarily during the pandemic.

<sup>11</sup> The Empire State Child Credit is calculated by taking 33% of the federal Child Tax Credit that a family would have received under the federal tax code prior to the Tax Cuts and Jobs Act. At that time, the maximum federal Child Tax Credit was \$1,000 per child and, like the current federal credit, the amount that a family received was tied to their earnings.

<sup>12</sup> Under age four.

to access the maximum Empire State Child Credit for their children, regardless of their children’s age, until their incomes reached the phase-out level of \$110,000 for two-parent families and \$75,000 for single-parent families.

**Figure 1.** Empire State Child Tax Credit for a two-parent two-child (one under age 4 and one over age 4) family by household income under various reforms



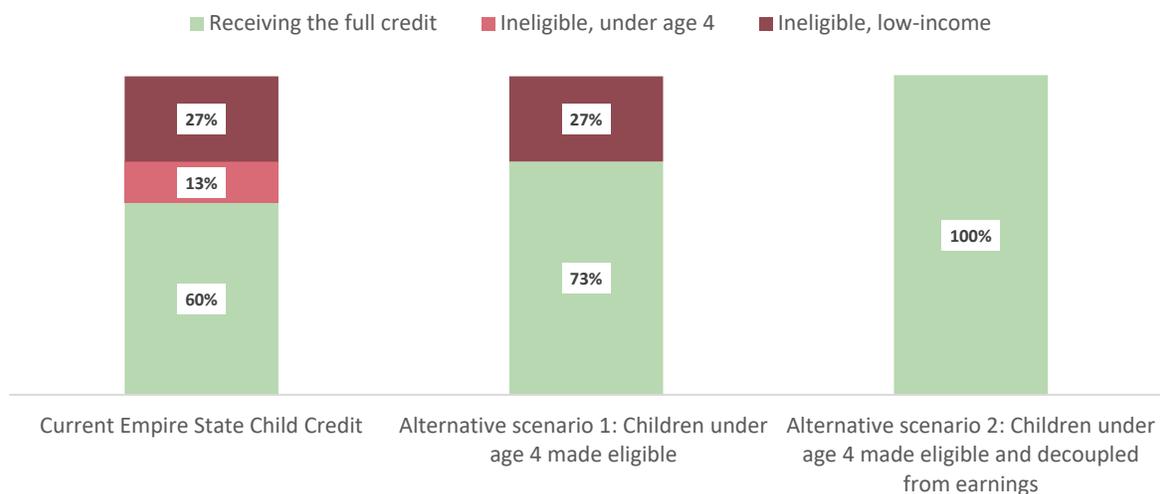
**Source:** Produced by the Center on Poverty and Social Policy at Columbia University.

From Figure 1, we see who would benefit the most under the two alternative scenarios. In scenario 1, when the credit is broadened to include younger children but not decoupled from earnings (green dashed line),<sup>15</sup> middle-income families with young children would benefit. They realize a gain of \$330 in their annual credit (as they move from a \$330 to a \$660 credit). But, because the full credit would still be inaccessible for those with lower earnings under this scenario, lower-income families would not benefit to the same extent, realizing a gain of only \$100 (as they move from a \$100 to a \$200 credit). When the credit is extended to cover children under age four *and* is decoupled from earnings (solid green line), we see both middle- and low-income families receiving the full credit of \$660. Decoupling the credit from earnings is thus key to ensuring that low-income children benefit from the Empire State Credit to the same extent as children in families with higher incomes.

<sup>15</sup> This reform was proposed in the Executive Budget for SFY 2020/2021, but this proposal was dropped from the final budget.

In Figure 2, we show how coverage changes under these scenarios, emphasizing that **the Empire State Credit will only reach those who would benefit from it the most if children under age 4 are made eligible and the credit amount is decoupled from earnings.** Such an expansion would allow the credit to reach the more than 1 million children who are currently ineligible for the full credit.

**Figure 2.** Share of children eligible for the full Empire State Child Credit under various scenarios (restricted to families below the Empire State Child Credit phaseout thresholds)



**Source:** Produced by the Center on Poverty and Social Policy at Columbia University using the 2017-2019 Annual Social and Economic Supplement to the Current Population survey, retrieved from IPUMS-CPS, University of Minnesota, [www.ipums.org](http://www.ipums.org).

**Note:** These results are calculated when restricting to children in two-parent families with incomes below \$110,000 and children in single-parent families with incomes below \$75,000.

**Well-designed reforms that decouple the credit from earnings, extend coverage to young children, and increase its value could play an important part in accomplishing the state’s goal of cutting child poverty in half in the next ten years.**

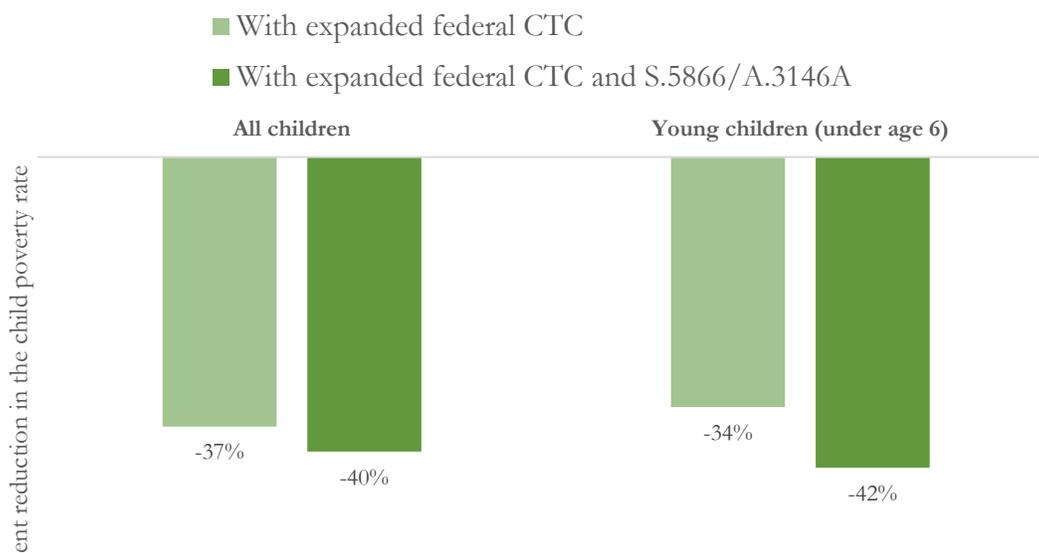
The expansion of the federal Child Tax Credit in 2021 revealed the impact that decoupling the credit from earnings *and* increasing the credit values could have on child poverty. The expansion allowed the federal Child Tax Credit to *temporarily* include the one-third of all children formerly left out; increase benefit levels (with an extra supplement for young children); and paid half of the credit out in regular monthly installments. In November of 2021, 3.8 million children in the United States were kept out of poverty by the federal Child Tax Credit specifically due to these reforms.<sup>14</sup> Continuing the expansion of the federal Child Tax Credit is the subject of ongoing debates regarding the Build Back Better policy agenda, but **the New York State Senate and Assembly have the opportunity to enact a similarly historic changes to the Empire State Child Credit, as it did with the Child Poverty Reduction Act.**<sup>15</sup>

<sup>14</sup> In 2021, the federal Child Tax Credit was made fully-refundable, which decoupled the credit from earnings. The credit values were also increased from \$2,000 per child to \$3,000 per child aged 6-17 and \$3,600 per child under age 6 and credit was also paid out in monthly installments of \$250 or \$300 per child (depending on age) in the second half of 2021. Estimates we have produced show these reforms cutting the child poverty rate by up to 45% and moving 3.8 million children out of poverty in November of 2021. See CPSP (2020) and Parolin, Collyer, and Curran (2022).

<sup>15</sup> Senate Bill [S2755C](#) establishes the child poverty reduction advisory council to effectuate a fifty percent reduction of child poverty in the state within ten years.

In 2019, the National Academy of Sciences released a report on policy packages that could cut the national child poverty rate by half, and transforming the federal Child Tax Credit by decoupling it from earnings and increasing the credit amounts was found to be the policy resulting in the largest reduction in child poverty.<sup>16</sup> These were the steps taken at the federal level in 2021, and the same can be done at the state level. Ensuring that all low- and middle-income children have access to the Empire State Child Credit by decoupling it from earnings would be the first step in this direction.<sup>17</sup> Further **increasing the credit values to \$1,000 for children under age four and \$500 for children over age four, as is outlined in S.5866 and A.3146A, would bolster the credit’s antipoverty impacts.**

**Figure 3.** Projected reductions in child poverty resulting from reforms to the Empire State Child Credit outlined in S.5866/A.3146A if the expanded federal Child Tax Credit (CTC) is continued



**Source:** Produced by the Center on Poverty and Social Policy at Columbia University using the 2017-2019 Annual Social and Economic Supplement to the Current Population survey, retrieved from IPUMS-CPS, University of Minnesota, [www.ipums.org](http://www.ipums.org).

Alone, S.5866/A.3146A could move nearly 30,000 children in New York State out of poverty. The impact would be furthered if the expansion to the federal Child Tax Credit of 2021 is carried forward (which continues to be negotiated at the federal level). For example, **when combined with the expanded federal credit, and Empire State Child Tax Credit outlined in S.5866/A.3146A would reduce the state’s child poverty rate by 40% and that of children under 6 by 42%**, moving 247,000 children out of poverty (Figure 3; see Appendix A for additional results). Our estimates also show that, combined with the expanded federal Child Tax Credit, S.5866/A.3146A could cut the rate of deep poverty<sup>18</sup> among children by 46% for all children and 48% for younger children. These results show how the reforms in S.5866/A.3146A could move the state forward in its mission of cutting child poverty by half in the next ten year, particularly when considering its impacts on poverty among young children.

<sup>16</sup> National Academy of Sciences (2019).

<sup>17</sup> The Empire State Child Credit is currently coupled to earnings because the credit value is tied to the federal credit level. To decouple the credit from earnings, it must be decoupled from the federal credit.

<sup>18</sup> Deep poverty is defined as living below half the poverty line.

## **Every dollar spent on the Empire State Child Credit that reaches children in poverty produces \$8 in benefits for society.**

Recent research on the impacts of the expanded federal Child Tax Credit show that families used the money to meet basic needs, like keeping enough food on the table.<sup>19</sup> As discussed earlier, this added income allows families to further invest in their children. That is, these investments do not just move children out of poverty – they have many broader societal impacts. Our center conducted a study that comprehensively quantified all of the monetary returns to society related to expansions to child-related credits like the Empire State Child Credit. Our aim was to determine if the benefits of making these credits fully-available to low-income children outweighed the costs. For this project, we brought together the most rigorous research on the impact of changes in income on long-term child outcomes, finding impacts on children’s health and development, their potential earnings as adults and the taxes they pay, on neo-natal mortality, as well as on criminal justice and child protective service spending, just to name a few. When combined, the studies show that increasing incomes of low-income children through expanding policies like the Empire State Child Credit would more than pay for itself in the long run at a rate of more than 8 to 1 for each dollar spent.<sup>20</sup>

### **Conclusion**

This testimony provides an overview of the potential impacts of decoupling the Empire State Child Credit from earnings, expanding coverage to the youngest New Yorkers, and increasing the credit value. Our analyses point to four conclusions:

- 1) Raising incomes improves children’s lives, but in its current form, the Empire State Child Credit does not raise incomes equally. Currently, those who would reap the greatest benefits from the credit – low-income children and young children – receive only a partial credit or no credit at all.
- 2) Expanding the Empire State Child Credit through two key reforms: **(1)** decoupling it from earnings and **(2)** making young children eligible would extend the credit to the more than 1 million children who are currently ineligible for the full credit due to their age or because their family’s income is too low.
- 3) Broadening accessibility to the Empire State Credit *and* increasing credit amounts to those proposed in **S.5866/A.3146A** would result in meaningful reductions in child poverty. When paired with the expanded federal Child Tax Credit, we estimate that the share of young children in the state living in poverty would fall by 42% with the reforms in **S.5866/A.3146A**, moving the state forward in its goal to cutting child poverty by half.
- 4) The returns to society resulting from such an expansion far outweigh the costs.

Thank you very much for your time. We appreciate the opportunity to submit testimony and look forward to continuing to work with you in your efforts to address child poverty in New York State.

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<sup>19</sup> See Curran (2021) for an overview of the various impacts of the Child Tax Credit.

<sup>20</sup> Garfinkel et al. (2020).

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The Center on Poverty and Social Policy at the Columbia School of Social Work produces cutting- edge research to advance our understanding of poverty and the role of social policy in reducing poverty and promoting opportunity, economic security, and individual and family-wellbeing. The center's work focuses on poverty and social policy issues in New York City and the United States.

**Appendix A.**

**Table 3. Projected reductions in child poverty resulting from reforms to the Empire State Child Credit if the expanded federal Child Tax Credit is continued**

	All children			Younger children (under age 6)		
	Poverty Rate	Number of Children in Poverty	Number of Children Moved out of Poverty	Poverty Rate	Number of Children in Poverty	Number of Children Moved out of Poverty
<b>Pre-ARP</b>	<b>15.0%</b>	<b>616,000</b>		<b>15.6%</b>	<b>211,000</b>	
With expanded federal Child Tax Credit	9.5%	391,000	226,000	10.3%	139,000	72,000
With expanded federal Child Tax Credit and S.5866/A.3146A	9.0%	370,000	247,000	9.0%	122,000	89,000

**Source:** Produced by the Center on Poverty and Social Policy at Columbia University using the 2017-2019 Annual Social and Economic Supplement to the Current Population survey, retrieved from IPUMS-CPS, University of Minnesota, [www.ipums.org](http://www.ipums.org).

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