

**Testimony
Joint Legislative Budget Hearing
Taxes
February 12, 2019**

**Presented by:
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The Children's Agenda**

Overview

Thank you to the chairs and members of the respective committees for the opportunity to submit testimony on tax policy in the 2019-20 New York State Executive Budget.

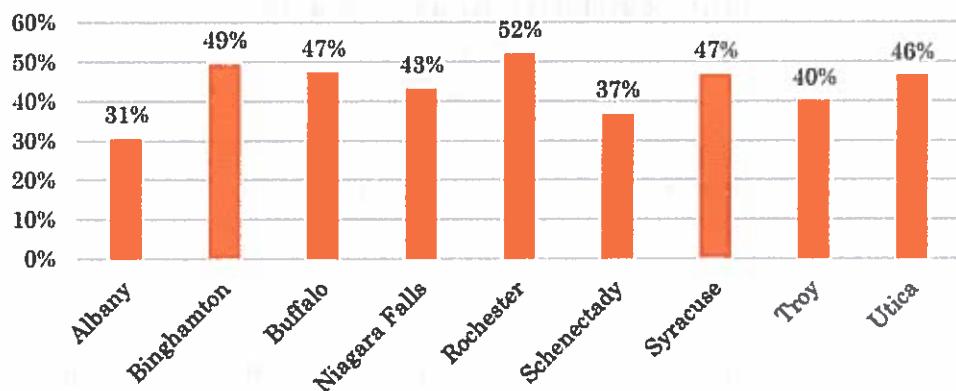
My name is Pete Nabozny, and I am the Director of Policy for The Children's Agenda in Rochester, NY. We are a children's policy and advocacy organization focused on improving the well-being of children prenatally through young adulthood. Through analysis, advocacy, and collaboration with partners locally and statewide, we pursue the implementation of programs and policies that address the serious challenges facing children and families. Our organization is committed to advocating for policies and practices that reduce the shamefully high prevalence of childhood poverty in our state and nation.

The Children's Agenda is also an active member of the Rochester-Monroe Anti-Poverty Initiative (RMAPI), one of sixteen Empire State Poverty Reduction Initiative efforts in New York State. The recommendations contained within this testimony have been endorsed by the RMAPI Steering Committee, and RMAPI has become a champion of tax credits as a key way to combat poverty.

My home city of Rochester has the highest child poverty rate in the United States among similarly-sizes cities, and one of the highest overall poverty rates in the nation as well. According to the latest census figures, over 50% of Rochester's children live in poverty¹. And while Rochester has the ignominious distinction of possessing the highest child poverty rate among major cities in the state and nation, other communities throughout the state aren't far behind us.

¹ 2013-17 American Community Survey

Child Poverty Rates in Upstate Cities with More than 40,000 Residents



Across the entire state, 880,000 children live below the federal poverty threshold, including 260,000 children under the age of 5. Children under 5 are unfortunately both the age group most likely to experience poverty and the most vulnerable group to the impact of poverty. The consequences of poverty for young children include negative effects to physical and mental health, educational achievement, and diminished lifetime earnings. As a state, we should employ all tools at our disposal to combat child poverty, including tax policy.

New York State should aggressively orient our state's tax code to benefit low-income families. New York State should use our tax policy to combat child poverty, encourage workforce participation among young adults, provide material financial support to low-income working families. Specifically, we should expand and strengthen the **Empire State Child Credit and Earned Income Tax Credit (EITC)**. Below are several improvements the State should consider adopting in the 2019-20 budget year.

Expand the Empire State Child Credit to Cover Children Birth to 4 and Enhance the Credit for Young Children

New York State is a leader in the United States in offering a refundable child tax credit. Nearly 1.5 million families benefit from the Empire State Child Credit, which modestly offsets some of the costs of raising children. However, New York's child tax credit contains a significant flaw that lawmakers should address. Specifically, it excludes children under 4 from eligibility. This defies logic. As noted above, young children are the group most likely to be in poverty in New York State and the group most likely to benefit to refundable credits such as the EITC and Child Tax Credit.² Tax credits benefitting young children in low-income families

² See <https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>

have been shown to increase infant health, school readiness, standardized test scores, college enrollment, and even adult workforce participation.

Recognizing this, New York should expand the Empire State Child Credit to cover children under age 4, and double the credit for these young children. Doing so would bring tax policy in alignment with social science and prioritize the group most likely to benefit from increased financial support.

Increase New York State's Earned Income Tax Credit from a 30% to 40% Match of the Federal Program

The Earned Income Tax Credit (EITC) is an important and effective tool that reduces poverty, increases workforce participation, increases financial security, leads to better educational outcomes for children, and improves overall child and parent well-being. The EITC is a rare anti-poverty program that enjoys bipartisan support, and has been expanded a number of times at the federal and state level since its introduction in the 1970's. Nearly all of New York State's EITC spending is currently used to supplement the federal program. New York currently provides a 30% match to whatever amount an individual receives from their federal tax return.

The EITC manages to simultaneously provide crucial financial support to low-income households and encourage those families to increase their wage earnings. Studies have shown that by increasing the value of low-wage work, the EITC generates higher workforce participation and sets individuals on a path to greater self-sufficiency.

Along with SNAP, the EITC is the most widely used form of government support for low-income families in the state, so improvements to this critical anti-poverty program would be widely felt throughout the state.

And while New York State has historically been a leader among the fifty states in administering a robust EITC, in recent years, we've begun to fall behind. A number of our neighboring states strengthened their EITCs in the past year. Massachusetts increased its EITC from 23% to 30% of the federal benefit, while Vermont increased its EITC from 32% to 36%, and New Jersey expanded it from 35% to 40%.

New York should strive to regain our national leadership on the Earned Income Tax Credit and **expand the state's match of the federal EITC from 30% to 40%.** Doing so will provide meaningful material support to more than 1.5 million households in New York State.

Create a New Earned Income Tax Credit for Childless Adults Ages 18 through 24

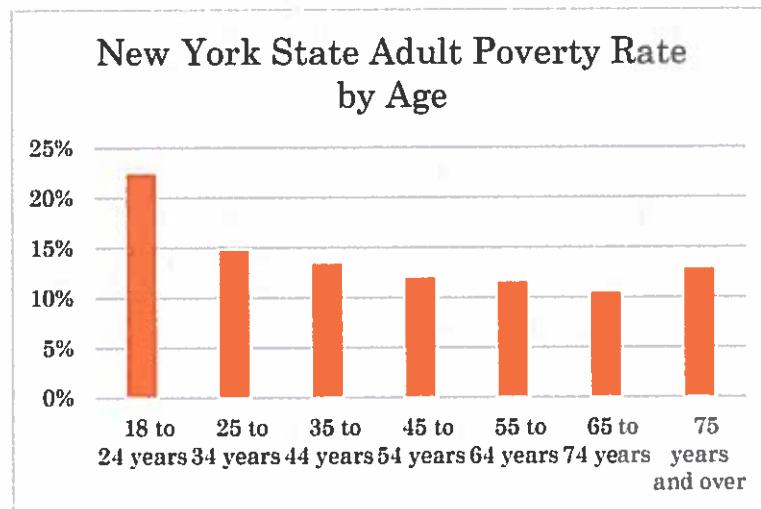
Nearly all of New York State's EITC spending is currently used to supplement the federal program. However, the federal EITC contains a few significant holes. While

the credit for tax filers with children is quite robust, the amount received by childless adults is paltry. As a result, a childless worker who makes poverty level wages ends up paying more toward state and federal taxes (including payroll taxes) than they receive in tax credits. These low-wage workers are essentially taxed into greater poverty.

Childless adults under 25 are also categorically excluded from receiving the EITC altogether. This seems unwise for several reasons.

First, the start of one's time in the workforce is critically important toward lifetime employment success. Habits are established, relationships with mentors and supervisors are built, and career trajectories begin. This seems particularly important for individuals who did not go to college. Numerous studies have shown that expansions in the EITC increase workforce participation and job retention. It therefore is reasonable to assume that a robust EITC for low-income young workers would also increase workforce participation, job retention, and importantly, set these young workers on a positive employment trajectory³.

Second, young adults are far more likely to be poor than any other age group of adults. It seems misguided to categorically exclude the group of adults most likely to be poor from a program that effectively reduces poverty. Over 22% of 18-24 year olds in New York State are in poverty, and 41% live in households making less than 200% of the federal poverty threshold. Young adults have nearly as high a poverty rate as children under 6.⁴



Finally, extending the EITC to childless young adults could help these individuals to be more financially stable before they begin having children. Roughly 20% of

³ See - <https://www.clasp.org/sites/default/files/public/resources-and-publications/publication-1/2014-09-17-Youth-EITC-Young-Workers-FINAL.pdf>

⁴ 2013-17 American Community Survey

births in New York State are to mothers under age 25. An EITC for childless adults would ultimately go to many expectant mothers, providing some additional resources to them during pregnancy and after children are born.

In the past several years, California, Maryland, Minnesota and the District of Columbia have recognized this deficiency and have created their own EITC for childless young adults. **New York should regain its place as the leader in state-level EITCs and establish the most expansive EITC for young adults in the nation.**

How to Develop and Administer a Childless Young Adult EITC

As noted above, most of New York's spending on the EITC is done by supplementing the federal program. But as the federal government categorically excludes childless adults under 25, New York would have to develop and administer its own EITC for this population. And because the federal EITC for childless adults 25 and older is so inadequate and poorly funded, New York should not just extend the federal program to younger adults.

Instead, New York should build upon and improve the state's one EITC program that currently differs from the federal methodology, the EITC for noncustodial parents.

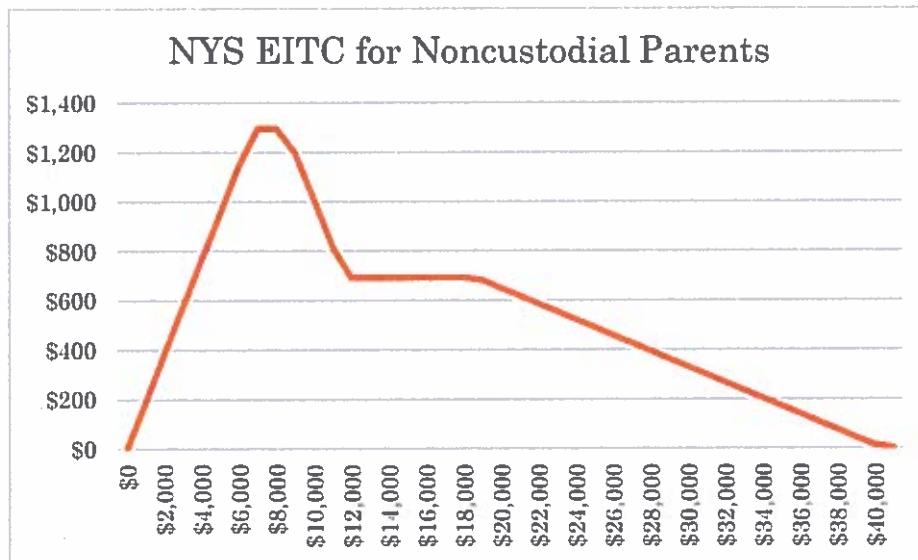
In 2006, New York State introduced an EITC for noncustodial parents who do not receive the larger federal and state EITC for individuals with dependents. This modest program serves approximately 5,000 people each year, and is intended to help noncustodial parents (typically fathers) contribute more to the care and financial support of their children. It is also designed to increase child support payment adherence, as only individuals who are up-to-date on child support are eligible to receive the tax credit.

According to the state Department of Taxation and Finance [website](#), the non-custodial tax credit is the greater of:

- 20% of the federal EITC that you could have claimed if the noncustodial child met the qualifying child definition. Compute it as if you had one qualifying child without the benefit of the joint return phase-out amount (even if you had a married filing joint return); or
- 2.5 times the federal EITC that you could have claimed if you met the eligibility requirements, computed as if you had no qualifying children. If the credit exceeds your tax liability, you can get a refund without interest.

According to NYS Open Data⁵, this works out to an average of around \$500 per recipient each year.

A simple way to extend the EITC to workers under 25 would be to apply the same methodology to all childless adults 18-24. However, the formula used to calculate the EITC for noncustodial parents is not ideal, and should be improved. The graph below shows the EITC at each \$1,000 increment of income up to \$41,000 per year.



As the chart shows, the Noncustodial Parent EITC scales up rapidly, and provides a maximum benefit of nearly \$1,300 per year to individuals making between \$6,780 and \$8,490. But then things go awry as the credit begins diminishing rapidly while following the childless adult phase-out rate. Someone making \$12,000 a year only receives \$692 from the tax credit, despite still being in poverty and only having marginally higher earnings than someone making \$8,500 a year. Then, due to cobbled together nature of this tax credit, the childless adult phase-out stops, and the amount received plateaus until it reaches a second EITC phase-out (this one following the parent with one dependent methodology) at \$18,660. This phase-out ends at \$40,320.

New York State should address these shortcomings by modifying the non-custodial parent EITC and extend the program to young childless adults in the following manner.

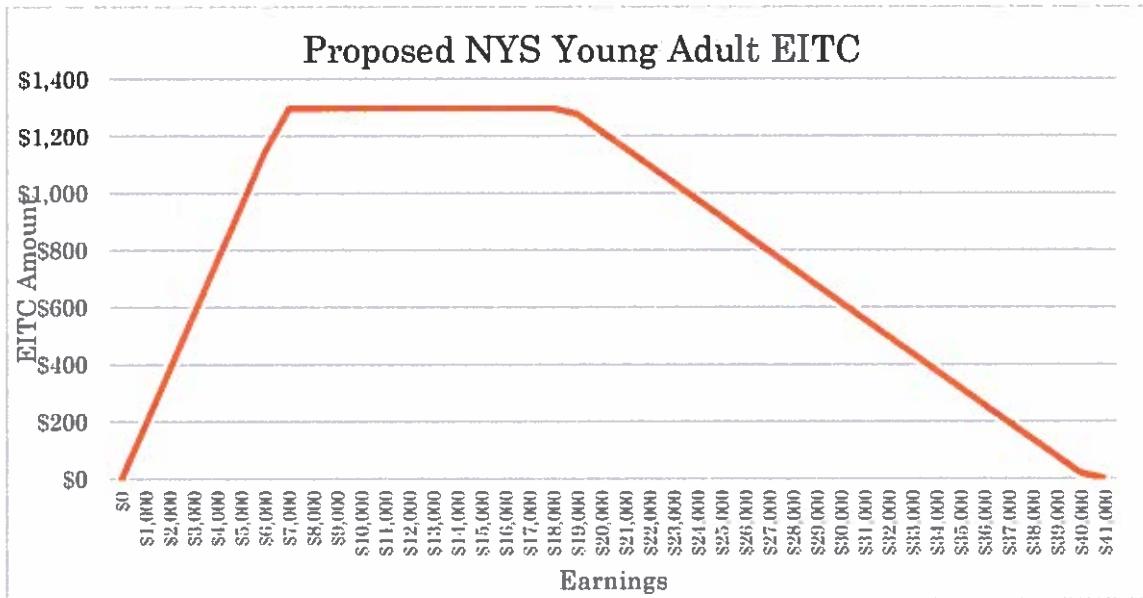
⁵ See <https://data.ny.gov/Government-Finance/Earned-Income-Tax-Credit-EITC-Claims-by-Credit-Type/6q7b-8vuf>

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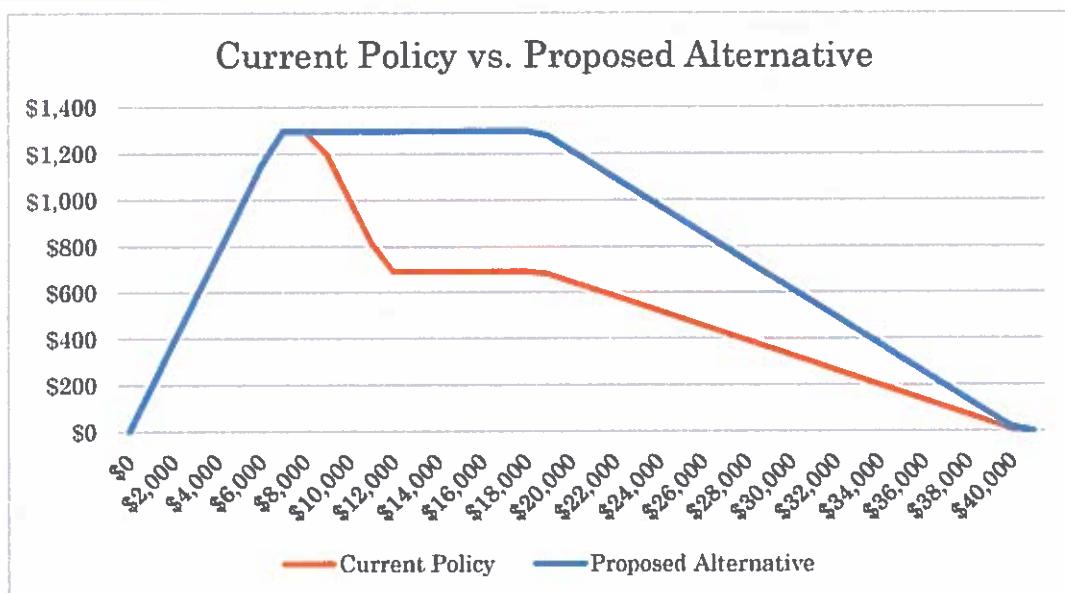
Smart Choices. Bold Voices.

Phase-in rate	7.65%
Phase-in ends	\$6,780
Maximum credit amount	\$1,298
Phase-out begins	\$18,660
Phase-out rate	5.99%
Phase-out ends	\$40,320

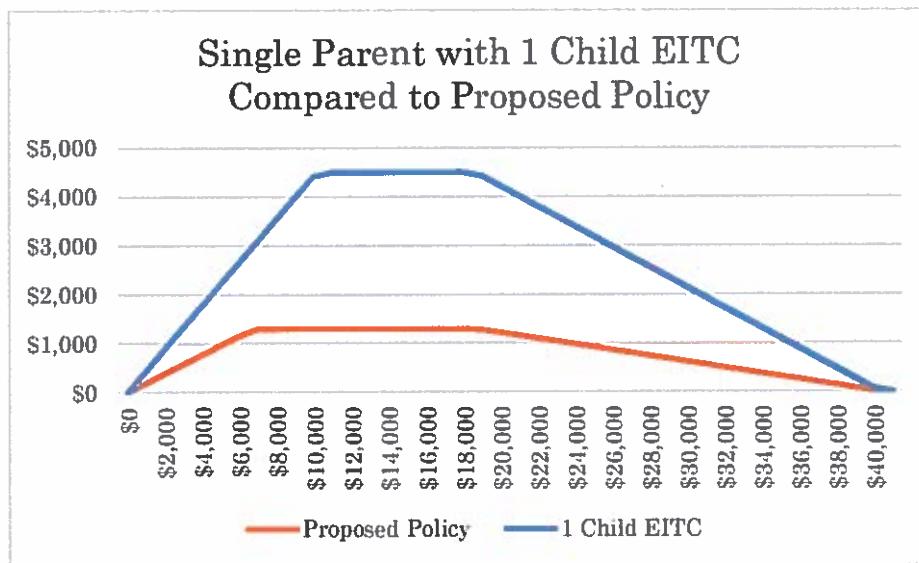
As with current policy, the maximum credit would still be reached when an individual earns \$6,780 per year, but the credit would not begin diminishing until earnings meet the federal phase-out for parents of 1 child (\$18,660 this year). Any qualifying individual earning between \$6,780 and \$18,660 would receive \$1,298 from this EITC. The phase-out would begin at \$18,600 and continue until earnings reached the federal cut-off of \$40,320. The chart below illustrates this proposed credit.



This chart shows the proposed young adult EITC alongside the existing structure of the state's noncustodial parent EITC. The two are identical until earnings reach \$8,490, and then they diverge considerably until both terminating at \$40,320.



It is worth noting that while modifying the EITC for noncustodial parents and extending this credit to childless adults under 25 would cost a considerable amount, this EITC is still substantially smaller than the one received by families with dependents. For many reasons, it is entirely appropriate that parents with children receive a significantly higher tax credit than childless adults. The chart below shows the proposed EITC among compared to the existing combined state and federal EITC for a single mother with one child.



New York State should improve the noncustodial parent EITC and extend the same improved methodology to childless adults under 25. Doing so will help young

workers transitioning into adulthood become more financially stable, better able to start a family, and become more attached to the labor force.

Conclusion

New York State has an opportunity to use tax policy to help families achieve greater economic security, reduce poverty and inequality, and give children the best possible start to life. Improving the State's working family tax credits will strengthen the economy and help make New York a better place for all New Yorkers to raise a family.

Again, thank you for the opportunity to submit testimony to the committee. For clarification or more information, please contact me at (585) 256-2620.

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