Economic Equity Policy Priority Brief

Supplemental Support

What is Supplemental Support?

When referring to Supplemental Support, we are acknowledging and advocating for the implementation of targeted tax policies that benefit low-income individuals and communities, such as earned income and especially child tax care credits. For the purposes of this brief, we will focus on supplemental support intended specifically for childcare assistance. Evidence abounds that childhood poverty elicits a cascade of negative effects in children as they grow into adulthood including lower levels of educational attainment, poorer health in adulthood, and lower earnings as adults, all developments that stunt a society's overall economic potential.

Supplemental Support Across the Country and in the South

For nearly three decades, since the 1997 Taxpayer Relief Act, the federal government has provided tax credits to eligible families, primarily low- and middle-income families. The original tax credit was $400 per child under 17 and this number was increased periodically by the U.S. Congress in the ensuing years. The high point of this federal assistance occurred under the March 2021 American Rescue Plan Act (ARPA) which temporarily expanded the child tax credit for the 2021 tax year to $3,600 per child younger than age 6 and $3,000 per child up to age 17. In fact, there is solid evidence on how this provision of the ARPA pushed child poverty rates downhill. Specifically, the ARPA included childcare assistance in the form of six monthly payments between July 2021 and December 2021 (of $250 a child or $300 for children under 6) and a lump-sum payment for an additional six months that was paid in spring 2022 to most families with children.

These extraordinary payments, which cost about $100 billion, triggered an impressive drop in child poverty rates: U.S. Census Bureau data released in September 2022 demonstrated that child poverty, calculated by the Supplemental Poverty Measure (SPM), fell to its lowest recorded level in 2021, declining 46 percent from 9.7 percent in 2020 to 5.2 percent in 2021. In addition, U.S. Census Bureau researchers found that the expanded child tax credit lifted 2.9 million children out of poverty. Furthermore, the U.S. Department of Agriculture (USDA) reported that food insecurity among households with children reached a two decade low in 2021 and attributed this drop to the numerous government assistance programs, including the ARPA-related child care payments, launched to diffuse the impact of Covid-19 on the economy. Finally, data released by JPMorgan Chase & Company indicated that by March 2022, the bank balances of those low- and middle-income families receiving the ARPA child care payments improved, providing a cushion for emergency expenses that they had not previously experienced.

Notwithstanding all this evidence regarding the positive impact of the child care payments on millions of low- and middle-income families and the valiant attempts by the Biden Administration and certain members of the U.S. Congress to make this funding measure permanent, the enhanced child care assistance program died with critics alleging that the monthly payments would amount to "an expensive welfare initiative." However, there continues to be increasing pressure on policymakers – federal and state – to introduce policies to positively impact the economic situations and lives of millions of low- and middle-income families by enacting significant child care assistance.

In response, there is legislation wending its way through the U.S. Congress currently – though not at the same level of assistance as provided to eligible families under the ARPA – that could go a long way towards easing the childcare financial burden for needy families and lift more children out of poverty. Specifically, the Tax Relief for American Families and Workers Act, in a rare burst of bipartisanship, passed the U.S. House of Representatives overwhelmingly (357-70) in January 2024. The bill is awaiting action in the U.S. Senate where certain Senators have balked at the price tag associated with the legislation. This legislation includes $33 billion to expand the childcare tax credit for three years and pairs it with business tax breaks and credits to develop more low-income housing. In terms of the childcare tax credit, the legislation would permit more low-income families to access the credit and also would allow many families to receive a larger credit. In addition, the actual payments disbursed would also be adjusted for inflation in the coming years. However, the legislation continues to languish in the U.S. Senate, waiting for action, so that these vulnerable families could be assisted.

As of May 2024, there are only 15 states that have enacted a child tax credit in addition to the federal credit. None of these states are located in the South. It must be noted, however, that while Louisiana, Alabama, and North Carolina have not enacted a state child tax credit, each state has enacted separate legislation that addresses the use of the federal child tax credit for its residents. Alabama's House Bill 231/Senate Bill 152, enacted in 2022, disregards the federal child tax credit for the purposes of calculating an individual's federal income tax deduction. Louisiana's Senate Bill 217, enacted in 2019, exempts the refundable portion of the federal Child Tax Credit from seizure except from the Department of Revenue or in cases of child support arrears.

North Carolina has two laws that are related to the federal credit. Senate Bill 257, enacted in 2017, allows a taxpayer a deduction of $500-$2,500 for each child for whom the taxpayer is allowed the federal child tax credit (dependent upon income and filing status). Senate Bill 105, enacted in 2021, increases the maximum deduction amount to $3,000 for each child whom the taxpayer is allowed the federal child tax credit and expands access to the child deduction to higher income families.

How Can Providing Supplemental Support Advance Equity in the South?

The success of the 2021 ARPA expansion in federal childcare assistance generated an array of positive outcomes and demonstrated with a great deal of clarity that the high child poverty rates in the United States are a policy choice, not an inevitability. There is a demonstrated ability and available resources to adopt proven methods to enhance the quality of life for millions of low- to middle-income families with targeted and meaningful childcare assistance. With the end of ARPA funding looming, by 2022, over two dozen states sprang into action and formulated their own childcare initiatives to assist needy families, often leveraging the ARPA funds received from the federal government for this specific purpose. Unfortunately, none of these states were in the South.

New Mexico made a strong commitment to invest state funds in their children, and enacted constitutional amendments to carry out this important objective. States like Missouri and Vermont and many others have made substantive investments in children through targeted childcare assistance, all in an effort to make an appreciable difference in the lives of these needy families. However, experts, while lauding these state initiatives, make the point that the federal commitment has to be paramount.

The evidence is sound that supplemental support measures have the ability to boost income for families who are burdened with low wages, for adults who are not raising children who also work in these low-paying jobs, and for caregivers who are unable to work because of their caregiving responsibilities. These supplemental support measures have the benefit of reducing poverty, especially in communities of color; helping children and families to thrive; and boosting local economies.

Child poverty in the U.S. is much higher than it is in the other 18 similarly wealthy nations in the word as 20% of U.S. children live in families with incomes below 50 percent of the national median income, compared to between 3 and 15 percent in other countries. 47 percent of the impoverished children in this country, however, live in the South. Child tax credits and EITCs both improve racial equity and reduce poverty. While these supplemental supports serve a large number of white households, they stand to benefit households of color in proportionately more significant rates as people of color are overrepresented in low wage jobs and lack of economic security due to historical and ongoing racial discrimination. Additionally, evidence suggests that these credits stand to benefit children from birth throughout their lives, increasing the likelihood that they will have better nutrition, graduation rates, as well as rates of college entry and in turn, earnings into young adulthood. These measures also provide boosts to local economies by helping families keep up with basic spending, especially as the cost of basic necessities have increased over the last several years.

Legislative Efforts Related to Supplemental Support

Several measures related to earned income tax credits were presented during the 2024 legislative session; however, none of them were successfully enacted into law, leaving low-income families in the South without supplemental support measures that could boost their economic stability for yet another year. A few examples have been included below.

1. **Florida:** Senate Bill 1570 would have established the Working Floridians Tax Rebate Program, a state EITC that would have helped to build more prosperous communities and strengthen future generations in a state where low-wage workers spend significantly more of their income on state and local taxes than those with higher incomes.
2. **Mississippi:** Senate Bill 2491 would have provided a state income tax credit for taxpayers claiming the federal earned income tax credit and allowing for a refund if the amount of income tax imposed was less the amount of the credit being claimed.
3. **Tennessee:** Senate Bill 1813 would provide a working families' tax refund for state and local sales and use tax paid on or after January 1, 2024 by low-income taxpayers who are eligible for the federal EITC.

Similarly, several measures related to childcare tax credits were also presented during the 2024 legislative sessions but were unsuccessful in final passage and enactment into law.

1. **West Virginia:** Senate Bill 184 sought to establish a permanent and refundable state child or child care tax credit for West Virginia taxpayers to support working families with children, reduce child poverty, and help West Virginia's economy.
2. **Virginia:** Senate Bill 969 would have created a refundable tax credit for 2024 through 2028 for families with children equal to $500 per child for household incomes not exceeding $100,000

Kentucky: Senate Bill 12 would have established a refundable child tax credit for taxpayers with qualifying children under the age of six, authorizing a maximum credit of $1,000 per child for individuals with incomes below $50,000 for single taxpayers and $100,000 for married taxpayers; the bill also would have allowed for a reduced credit for those whose incomes exceed the maximum.