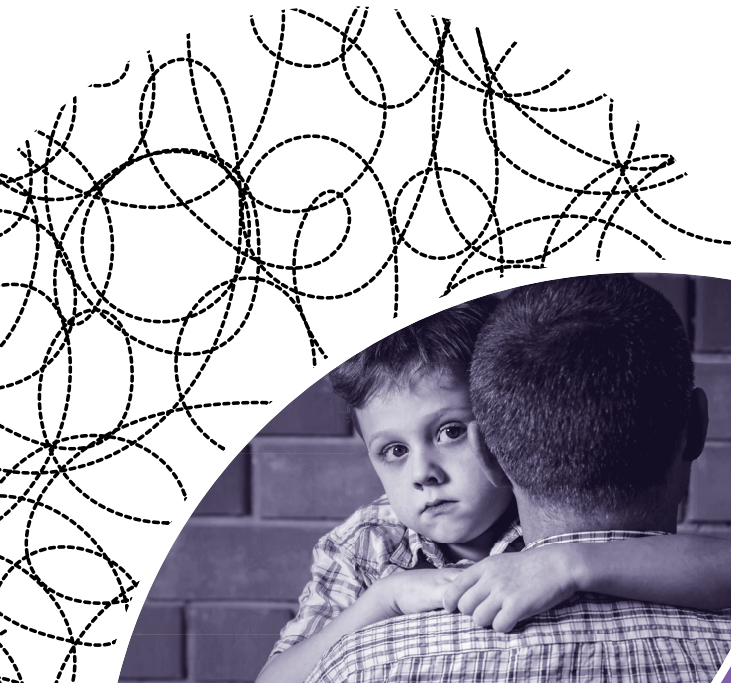




Flexible Cash: The Tax Credit Opportunity

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A small amount of cash can make a surprisingly large difference for children living with the chronic stress and instability that results from having parents working in low wage sectors of our economy. Children are currently paying the price for a “just in time” economy that relies on a ready pool of low wage workers. Every parent wants better for their children and they are willing to work for it, but the nature of low wage work including unpredictable schedules, lack of benefits and wage levels below the basic cost of living makes it impossible for too many.

Flexible cash is what families need to be able to create a nurturing, stable platform from which they and their children can successfully launch. That’s what Children’s Defense Fund-Minnesota (CDF-MN) heard in 44 listening sessions we held across the state.

Evidence backs up what our families told us in every corner of Minnesota. The National Academy of Science finds that modest boosts in parental income during a child’s first years have “striking associations with that child’s future school and employment success” ([G.J. Duncan 2021](#)).

Policies to increase access to flexible cash, alongside public programs that reduce expenses like housing, food or child care, are efficient and effective way to help remove barriers to economic stability.

There are multiple ways to deliver flexible cash to families. CDF-MN is working on three: improving the cash assistance portion of the Minnesota Family Investment Program, guaranteed income pilots, and tax credits. In this brief we focus on tax credits.

“The weight of the causal evidence indicates that income poverty itself causes negative child outcomes, especially when it begins in early childhood and/or persists throughout a large share of childhood. A growing body of research shows that in most cases, cash or ‘near-cash’ payments such as tax credits to families living in poverty improve children’s development and boost economic productivity in adulthood.”

([G.J. Duncan 2021](#))



Tax Credits: A Proven Approach Serving Thousands of MN Children

A robust body of research documents that increases in the federal Earned Income Tax Credit (EITC) for low-wage workers with children and the formation of state EITC programs drove increases in birth weight, school achievement, high school graduation rates, and college attendance and completion ([Marr, et al. 2021](#)). According to the Prenatal to Three Policy Impact Center, research shows that the state EITC is the most effective anti-poverty policy for children in the US, promoting healthier and more equitable birth outcomes, boosting parents' workforce participation, and improving household economic security, with the greatest effects for single mothers and their children ([Prenatal-to-3 Policy Impact Center 2021](#)).

In 2020, 304,000 Minnesota tax filer households received an average Earned Income Tax Credit of \$2,210. Minnesota is among the top 10 states for EITC receipt with 90% of eligible filers receiving the credit. Minnesota builds on the federal EITC with a refundable Working Family Credit. The average Working Family Credit in Minnesota equals 39% of the federal credit ([Prenatal-to-3 Policy Impact Center 2021](#)). In 2018, the latest year for which we have data, 307,000 Minnesota tax filer households received the Working Family Credit with an average value of \$773. Minnesota is one of four states that currently provide state EITC benefits to younger (ages 18 to 24) filers not covered under the federal policy. ([Find out more about how many families access these credits in your county](#))

According to the Minnesota Budget Project, households in Greater Minnesota are more likely to receive the Working Family Credit: 13.3 percent of tax-filing households in Greater Minnesota receive the Working Family Credit, compared to 11.4 percent in the seven-county metro area. While people



Compelling evidence supports Minnesota parent suggestions

Unmarried mothers with children under age 3 were 9 percentage points more likely to work with each additional \$1,000 in average EITC benefits (federal plus state)

State EITCs boosted mothers' annual wages by 32%.

\$3,000 increase in annual income for children ages 0-5 is associated with a 17% increase in annual earnings as adults.

Source: [Center on Budget and Policy Priorities](#)

of color made up about 18 percent of the state's population, in 2015 about 34 percent of Minnesota households eligible for the federal EITC (and therefore likely also the state Working Family Credit) were people of color. Among EITC-eligible Minnesota households, 13.9 percent were black, 7.7 percent were Asian, and 6.5 percent were Hispanic ([Minnesota Budget Project 2019](#)).

Learning from the Pandemic: Child Tax Credit Innovations

The pandemic has given us a window into the possible. Across a variety of public programs and policies, innovative approaches previously viewed as impossible suddenly became reality. The combination of additional investments and new mechanisms for delivering them to people, especially people with children, protected many Minnesota families from the possible economic devastation of a global pandemic. Resources flowed more effectively than ever through the federal, state and local government programs to kitchen tables across the state ([Chotiner 2022](#)). Rather than anticipated increases in poverty, Minnesota's poverty rate actually declined slightly in 2020. These unprecedented investments not only kept many of our children from suffering the consequences of extreme economic deprivation on top of a host of other negative social, emotional and academic pandemic related challenges, they were instrumental in the recovery of Minnesota's overall economy.

Among these pandemic related innovations, this suite of changes known as the "Advanced Child Tax Credit" stands out. In 2021, the federal American Rescue Plan made several important changes to the existing Child Tax Credit. These included: increasing the amount with an even larger boost for children under 5, making children from the lowest or no income families eligible, and allowing families to receive half of the credit in advance through six monthly installments. The policy no longer penalized children from the lowest income households with lower support or no support at all. An estimated 322,000 Minnesota children from the state's lowest or no income families became eligible for the full credit for the first time ([Marr, et al. 2021](#)).

Further; defined, consistent monthly payments stabilized family budgets and allowed them to make plans for the first time. Focus groups conducted in Minnesota as well as modeling using CDF-MN's own

Economic Stability Indicator tool suggest that tax credit policies through annual tax filings have the power to raise families above the poverty line, but they are confusing and difficult to factor into a family's monthly budget, especially given the challenges low wage workers face with volatile sources of income that are not compatible with caregiving. While far from perfect, the 2021 Advanced Child Tax Credit's direct, automatic, predictable monthly payments to previous tax filer households with children went a long way towards addressing shortcomings of other current tax credit policies.

The innovations in the Advanced Child Tax Credit revolutionized and recentered this federal policy as a largely universal, close to no strings attached support for every child, except those from the most well-off families or without documentation. While the impacts are still being assessed, estimates suggest that Minnesota's child poverty rate could have dropped by 48% overall and by 55% for Minnesota's black children as a result ([Marr, et al. 2021](#)).

Based on what we have learned from the 2021 federal Advanced CTC, government's ability to efficiently and effectively deliver flexible cash support to children and their families during the pandemic, and CDF-MN's years of experience connecting families with benefits and understanding the intersection of various forms of support through our Bridge to Benefits and the Economic Stability Indicator tools, we make the following suggestions for improvements to Minnesota tax credit policies.

Tax Credit Changes can increase Flexible Cash access for Minnesota Families and their Children

1. Create a new Minnesota Advanced Refundable Child Tax Credit

The federal Advanced Child Tax Credit expired at the end of 2021 and Congress has not yet taken action to extend it. However, inaction at the federal level does not mean Minnesota has to wait. Minnesota could be a leader in moving these important policies forward. While seven states have a state level Child Tax Credit, none of them currently deliver payments monthly ([National Conference of State Legislators 2021](#)).

Minnesota could become the first state to replicate this element of the federal Advanced Child Tax Credit, as well as other important aspects including making the credit fully refundable, basing income eligibility on the previous year and allowing children whose families do not have earned income to qualify.

2. Improve Minnesota's Current Working Family Credit

In addition to increasing the overall amount of the credit, especially in the earliest years of a child's life when costs are greatest and family income lowest, Minnesota's Working Family Credit could be improved in several ways to better serve families:

Increase the amount of credit available to the lowest income families. Currently the WFC provides families with the lowest incomes a smaller credit. For example, a single parent with two children earning \$5,000 is currently eligible for a \$500 credit, whereas this same family earning \$10,000 receives around \$1,000 (Minnesota Budget Project 2019). Credit levels at the low end could be improved without eliminating the incentive to work.

Allow families to base the credit amount on previous year earnings. During the pandemic, some programs allowed families to choose a tax year for eligibility based on which would be

most advantageous. This option is important for budgeting certainty and makes the next policy change, periodic payments, less risky for families.

Give families the option to receive some or all of their credit periodically (quarterly like the Affordable Care Act premium subsidies or monthly like the 2021 Advanced CTC). Some families appreciate receiving a lump sum once per year as a form of savings, while others need the support monthly to make ends meet and cover bills that come monthly not at the end of a year (Chotiner 2022). CDF-MN's Economic Stability Indicator tool demonstrates the difference monthly payments can make for a family's ability to meet a basic needs budget (see Figure 1 with example of family in Dakota County). The federal 2021 Advanced CTC provided both options - half of the credit in monthly installments and half in a lump sum at tax filing or all in lump sum at tax filing. Families will be reluctant to take advantage of periodic payments if they may result in an "overpayment" that must then be paid back. This is one reason the Advanced EITC has not been taken up at high levels.

“almost none of the parents receiving TANF whom we spoke with had a basic understanding of how tax programs worked, which tax programs they qualified for, or how much they would receive back after filing taxes.”

Urban Institute focus group including Minnesota MFIP/TANF recipients

3. Increase access to tax credits with new tools and more navigator support

New tools and increased navigator support would help more families to access existing and newly designed tax credits to benefit their children. For example, while Minnesota is a national leader in EITC take-up, the 10% of eligible families that aren't currently receiving it could represent as many as 30,000 children. The roll-out of the federal Advanced CTC is instructive. Overtime, access became more and more user friendly, with additional online tools such as Code for America's online easy filing portal ([Covert 2022](#)). On a broader scale, Code for America also worked in Minnesota, [building on its efforts in other states](#), to create the [MNBenefits tool](#) to help families access public benefits ([Palmer 2021](#)). Adding tax credits to the MNBenefits tool could help families make sense of and better use tax credits to create economic stability for their children.

While these online tools provide important models for making state and federal tax credits more accessible, many people also need individual help for a variety of reasons, including lack of a computer or internet service, language barriers, and/or managing the complex intersections of various benefit programs and family circumstances. Navigators are essential links to help families overcome these barriers. Organizations like Prepare and Prosper help low-income Minnesota families file taxes, but their capacity is far exceeded by demand. Minnesota has used its federal Preschool Development grant to stand-up a network of Community Hubs designed to help families navigate and access various supports using CDF-MN's Bridge to Benefits tool and other resources. These and other trusted sources should be better resourced to add tax credits to their portfolio and to provide increased navigator support.



Figure 1: The additional, flexible resources that come from tax credits help families achieve economic stability, allowing them to meet needs and unexpected expenses not included in a basic needs budget (i.e. diapers, formula, internet, car repair)

The following table provides a snapshot of expenses and public supports, including tax credits, for a Dakota County single parent with two children (1 and 3 years old) working full-time, year round at \$15 per hour.

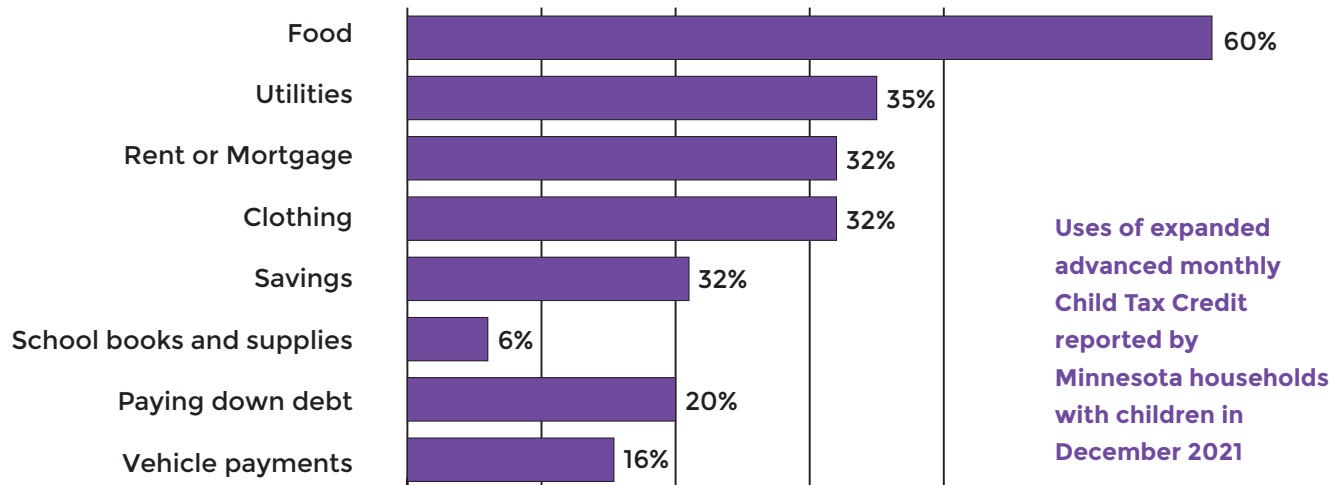
Basic Needs Monthly Budget		Public Supports family is eligible to receive*		Reduced Expenses with all Public Supports*
Food	\$592	SNAP	\$131	\$316
		WIC	\$145	
Health Care	\$553	Medical Assistance Adult & Child	No cost	\$ -
Housing/Utilities	\$1,089	Section 8	\$389	\$680
		Energy Assistance	\$20	
Childcare	\$1,542	Child Care Assistance	\$70 co-pay	\$70
Transport	\$422			\$422
Other Necessities	\$330			\$330
State Taxes	\$31			\$31
Federal Taxes	\$262			\$262
Total Expenses + Taxes	\$4,841			\$2,131
Income (\$40/hr, 15 hr)	\$2,333			\$2,333
Balance	\$(2,508)			\$202
State Tax Credits		Working Family Credit (WFC)	\$174	
		Childcare Credit	\$22	
Federal Taxes		Earned Income Tax Credit (EITC)	\$329	
		Child and Dependent Care	\$19	
		Child Tax Credit (CTC)	\$167	
Total Monthly Tax Credits (currently provided annually, divided by 12 for purposes of illustrating effect of monthly payments)			\$710	
Balance After Including Tax Credits				\$912

*In this scenario, the family is able to access all forms of support for which they are eligible; however, in reality some public programs (particularly Section 8 housing and Child Care Assistance) are not currently fully funded and have waiting lists that can stretch out over years.

Source: [Economic Stability Indicator](#)

Conclusion

Minnesota households with children used federal Child Tax Credit to cover basic expenses



Source: U.S. Census Bureau Household Pulse Survey

Struggling families + budget surplus + bipartisan support = time to act



As 2021 came to a close, too many Minnesota families remained economically unstable. Many families had used their federal Advanced Child Tax Credit to cover basic needs. In 2022, now that the monthly Advanced Child Tax Credit payments have ended, Minnesota parents and children continue to struggle.

At the same time, Minnesota's budget surplus—currently at over \$9 billion—continues to grow and to increase political pressure for tax cuts. At the state and federal level tax credits enjoy broad, bipartisan support. As state decision-makers consider improvements to the tax code, now is the perfect time to build on successful federal and state tax credit policies and further leverage our Minnesota tax system to better support children and their families with flexible cash.

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