

Testimony in support of LD 1544, “An Act to Improve Economic Security for Maine Children by Establishing the Maine Dependent Tax Credit.”

Josie Phillips, Policy Fellow | 5/4/2023

Good afternoon, chairpersons Grohoski and Perry. My name is Josie Phillips, and I am representing Maine Center for Economic Policy. I am testifying in favor of LD 1544 because the Dependent Tax Credit is a powerful and proven tool to help families deal with rising costs, reduce child poverty, and improve long-term outcomes for children and families. The broader consequences of these outcomes for Maine’s economy make this a win-win for everyone.

Maine’s current version of the Dependent Tax Credit provides some financial stability to families in the form of a \$300, non-refundable annual credit. However, the credit’s value has not been updated to keep pace with rising costs and continues to leave families that do not meet minimum income requirements behind. LD 1544 would update the Dependent Exemption Credit to more meaningfully support over 200,000 Maine children and 118,000 adult dependents.ⁱ By making Maine’s Child Tax Credit refundable, the bill would extend this crucial support to the state’s most economically vulnerable children, many of whom live in rural Maine. Updating the value of the credit from \$300 to \$350 would help families keep up with the costs of essentials — which have risen significantly since the credit was first created in 2017 — and **lift an estimated 3,500 Maine children out of poverty.**ⁱⁱ

Maine has already witnessed the difference an increased refundable Child Tax Credit would mean for families.ⁱⁱⁱ **The 2021 expansion of the federal Child Tax Credit eliminated minimum income requirements and allowed Maine children in families with very low income to access the credit for the first time, helping them pay for necessities like food, rent, and child care.**^{iv}

The income boosting effects of the Child Tax Credit puts families in a better position to thrive. For children, the credit provides resources they need to be safer,^v better nourished,^{vi} and better educated, both now and in adulthood.^{vii} For adults, the credit’s assistance in meeting their families’ basic needs reduces the psychological strain that poverty can place on parents, enabling them to be more attentive and supportive with their children.^{viii ix} Because they alleviate the stress of financial hardship, tax credits for families have been shown to reduce rates of child neglect and abuse.^x The Child Tax Credit has such a transformational impact on children’s lives that **every dollar spent on the credit has a ten dollar return on investment to society** in the form of increased future earnings, better health, improved educational outcomes, and reduced involvement with the criminal justice system for impacted children.^{xi}

Despite the more publicized name of “Child Tax Credit,” updating **Maine’s Dependent Tax Credit would help more than just families with children.** Because the credit is also available to families with adult dependents, increasing its value and making it available to families with low incomes **would also support some of the 166,000 Mainers who care for aging family members or family members with disabilities.**^{xii} Across the spectrum of family types and compositions, a modernized Dependent Tax Credit would enable Mainers to better care for their loved ones, stay connected to the labor force, and make our communities healthier and more resilient in the process.

By modernizing Maine’s Dependent Tax Credit, LD 1544 would make it possible for hundreds of thousands of Maine families, adult dependents, and children to deal with rising costs and achieve greater economic security. We urge this committee to give our state a stronger, more prosperous future by voting yes on LD 1544.

ⁱ Institute on Taxation and Economic Policy analysis of LD 1544, requested by Maine Center for Economic Policy

ⁱⁱ Columbia University Center on Poverty and Social Policy analysis of LD 1544, requested by Maine Center for Economic Policy

ⁱⁱⁱ Maine Center for Economic Policy, “Child Tax Credit expansion reducing hunger, increasing security for Maine kids — Congress must continue this life-changing program.” <https://www.mecep.org/blog/child-tax-credit-reducing-hunger-increasing-security-for-maine-kids-congress-must-continue-this-life-changing-program/>

^{iv} Maine Center for Economic Policy, “REPORT: How the Child Tax Credit was spent in Maine.” <https://www.mecep.org/taxes-and-budget/report-how-the-child-tax-credit-was-spent-in-maine/>

^v Population Reference Bureau, “Anti-Poverty Tax Credits Linked to Declines in Reports of Child Neglect, Youth Violence, and Juvenile Convictions.” <https://www.prb.org/resources/anti-poverty-tax-credits-linked-to-declines-in-reports-of-child-neglect-youth-violence-and-juvenile-convictions/>

^{vi} Brookings Institute, “The impacts of the 2021 expanded child tax credit on family employment, nutrition, and financial well-being.” <https://www.brookings.edu/research/the-impacts-of-the-2021-expanded-child-tax-credit-on-family-employment-nutrition-and-financial-well-being/>

^{vii} Society for Research in Child Development, “Reducing Child Poverty Can Promote Children’s Development and Productivity in Adulthood.” <https://www.srcd.org/research/reducing-child-poverty-can-promote-childrens-development-and-productivity-adulthood>

^{viii} Health Affairs, “Effects Of The 2021 Expanded Child Tax Credit On Adults’ Mental Health: A Quasi-Experimental Study.” <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2022.00733>

^{ix} PubMed Central, “Poverty, Parenting, and Psychiatry.” <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6696914/>

^x Population Reference Bureau, “Anti-Poverty Tax Credits Linked to Declines in Reports of Child Neglect, Youth Violence, and Juvenile Convictions.” <https://www.prb.org/resources/anti-poverty-tax-credits-linked-to-declines-in-reports-of-child-neglect-youth-violence-and-juvenile-convictions/>

^{xi} Columbia Center on Poverty and Social Policy, “Child allowances are a winning investment.” <https://www.povertycenter.columbia.edu/news-internal/2021/child-allowance/cost-benefit-analysis>

^{xii} AARP, “N Family Caregivers in Maine Provide 2.9 Billion in Unpaid Care to Loved Ones.” <https://states.aarp.org/maine/valuing-invaluable-report>

The Child Tax Credit — An Explainer

What is the Child Tax Credit?

The Child Tax Credit (CTC) is one of the most effective tools for helping families manage the rising cost of raising children. The program provides financial relief to American taxpayers with dependent children and has lifted millions of children out of poverty. Congress expanded the program in 2021 to provide up to \$3,600 per year for each child under age 6 and \$3,000 for each child aged 6 to 17. The expansion allowed many taxpayers to receive some of the credit as advance monthly payments and also eliminated minimum income requirements. This critical change allowed families with the lowest incomes to receive the full benefit for the first time.



Despite studies showing that the expanded Child Tax Credit cut child poverty nearly in half, Congress failed to renew the expansion in 2022. At a time when the costs of basic daily needs like housing, child care, food, and utilities are higher than ever, the families who earn the least will again have less or no access to the credit. Those who retain it will see dramatic reductions.

Why is the Child Tax Credit important?

- **Lowers the cost of living for working families.** Reaching more than 36 million households, including many essential workers with low income, expanded Child Tax Credits were primarily used for immediate needs like food, utilities, housing, clothing, and education expenses. The tax benefits also support local economies. Every dollar of a Child Tax Credit generates \$1.50 to \$2 in local spending.
- **Dramatically reduces child poverty.** Nearly 3 million children were lifted out of poverty in just one year of expansion, resulting in a child poverty rate that fell by 46 percent to a record low. Rolling back the improvements makes the credit eight times *less* effective at reducing child poverty. In the year following the expansion rollback, almost 4 million children are estimated to have fallen back into poverty. The impact of child poverty, including poor outcomes in health, education, and economic mobility, cost the nation between \$800 billion and \$1.1 trillion each year.
- **Improves rural and racial equity.** Before expansion, 27 million children in families with the lowest income – including *half* of all rural, Black, and Hispanic children received less or no help from the Child Tax Credit. Roughly one in three rural kids were unable to receive the full credit because their families didn't earn enough to qualify. By eliminating the minimum income requirement, the expansion ensured that almost all children received the full benefit amount for the first time.
- **Builds long-term opportunity.** Researchers estimate that making the expanded Child Tax Credit permanent would cost about \$100 billion per year, while generating \$1 trillion worth

of societal benefits resulting from improvements in education, earnings, health and reduced costs related to child protection and criminal justice. That's a 1,000 percent return on investment.

- **Ensures kids and families don't fall through the cracks.** Children have no control over their parents' income, and people without reproductive rights are denied control over their economic futures. As abortion bans take effect across the country, notably in states that spend the least on families and kids, more babies will be born to people already experiencing financial hardships. The expanded Child Tax Credit is urgently needed in states limiting reproductive freedom.

How are Mainers impacted?

- 142,000 Maine families with 229,000 children received the expanded Child Tax Credit in 2021. Almost all families with minor children were eligible for the expanded credit, including an estimated 49,000 children under 17 who currently receive less than the full credit or no credit at all because their families' incomes are too low.
- When federal and state supplemental assistance like the Child Tax Credit were factored in for the three-year period between 2019 and 2021, Maine ranked among the eight states with the lowest child poverty rates in the nation. In 2021, the expanded CTC led to an estimated 40 percent reduction in Maine's child poverty rate.
- 88 percent of Maine families with low income use their Child Tax Credit for basic needs like food, utilities, housing, clothing, and education expenses. Following the expansion rollback, six times more families reported food insecurity and four times more families reported difficulty paying for household expenses.
- Maine is one of 12 states that also has its own child tax credit program, the Dependent Exemption Tax Credit, which provides \$300 for each qualifying dependent. But because families must meet income requirements to qualify, thousands of children in families with low income lose out on the full benefits.

What can be done to restore the expanded tax credit?

- **On the federal level:** President Biden's 2023 budget proposal includes an enhanced Child Tax Credit based on the 2021 expansion. If enacted, families with the lowest income would receive the most benefit. That would mean an average monthly credit of \$335 for the bottom 20 percent of earners (families with income below \$27,200).
- **On the state level:** Legislation being considered this year would expand and improve Maine's Dependent Exemption Tax Credit, increasing the value of the credit from \$300 to \$350 per dependent and, importantly, removing minimum income requirements so that families with the lowest incomes can qualify. The Center on Poverty and Social Policy estimates the improvements would lift 3,500 Maine children out of poverty. And because the credit can also be used by families with adult dependents, it would also support the 166,000 Mainers providing direct care for family members who are aging or have disabilities.

Did you know...?

- The Child Tax Credit was first introduced in 1997 as a \$400 income-qualifying credit as part of the Taxpayer Relief Act enacted during the Clinton administration. The credit was later increased and expanded under George W. Bush, Trump, and Biden administrations. The current Child Tax Credit exists as a component of The Tax Cuts and Jobs Act of 2017 and expires at the end of 2025.
- The Child Tax Credit's minimum income requirements mean that a single mom of two making \$15,000 per year gets *half* the credit of a family making \$150,000 per year.
- 87 percent of the anti-poverty impact of the expanded Child Tax Credit comes from eliminating the minimum income requirement.
- Only children who are US citizens are eligible for federal Child Tax Credit benefits. About one million children are left behind by this rule, including 500 in Maine.
- Researchers recently looked for evidence that the expanded Child Tax Credit reduced participation in the labor force. They found no evidence that it did and, in fact, analysis suggests that like the Earned Income Tax Credit, an expanded Child Tax Credit may actually help increase labor force participation.

For reference links, visit
mecep.org/blog/the-child-tax-credit-an-explainer