

**Positive Testimony on HB2687
Providing a State Child Tax Credit**

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Background and Summary:

I have served as the chief academic adviser to the Governor’s Tax Reform Council starting in 2019. This testimony addresses the provisions of HB 2687 providing a state child tax credit.

This testimony is **Positive** on House Bill 2687 because additional income from the child tax credit can raise children out of poverty and support their health and well-being.

Income Matters for Children

Researchers have shown that the 2021 expanded federal child tax credit (CTC) reduced child poverty to 5.2% in 2021. Once the expanded federal CTC ended, child poverty more than doubled to 12.4% in 2022 (Shrider & Cremer 2023). The Census Bureau estimates that the expanded child tax credit kept 5.3 million people out of poverty in 2021. Researchers have found that the expanded federal CTC led to a 25% decline in food insufficiency for low-income households with children with most of this effect being concentrated among households with pre-tax incomes below \$35,000 (Parolin et al 2021). These findings were echoed by other researchers who found that the CTC reduced material hardship and food insecurity while having no negative effect on labor supply (Pilkaukas et al 2023; Enriquez, Jones & Tedeschi 2023).

The state CTC proposed in HB 2687 would provide a refundable tax credit to households with children. This is a universal tax credit that provides funds for all families with children. The amount of the tax credit depends on a household’s Kansas Adjusted Gross Income. The child tax credit is more generous for low-income families and becomes quite small for high-income families. We performed an analysis of hypothetical married taxpayers with two children by Kansas Adjusted Gross Income (KAGI) levels ranging from \$20,000 to \$300,000. We assume that both parents are working and that children are in daycare. Table 1 shows the impact of the EITC, the child and dependent care tax credit, and the proposed child tax credit on the tax after credits. Since both the child tax credit and the EITC are refundable, low-income households pay no taxes and receive a credit from the state. The low-income households receive a significant subsidy from the state of over \$2000. The child tax credit doubles the economic relief from the state for the lowest income households. As KAGI increases, the child tax credit is reduced in value. Table 2 shows the same analysis for head of households with two children. The benefits are similar in this case—the lowest-income households benefit from additional state investment.

Table 1: Hypothetical Taxpayers: Married, 2 Children						
KAGI	20,000	35,000	60,000	80,000	125,000	300,000
Kansas income tax before credits	93	558	1,612	2,676	5,241	15,216
Credits						
Kansas child care credit (1)	93	375	300	300	300	300
Kansas EITC (2)	1,183	992	97	0	0	0
Proposed child credit	1,200	800	400	200	150	100
Child credit percentage of KAGI	6.00%	2.29%	0.67%	0.25%	0.12%	0.03%
Total credits	2,476	2,167	797	500	450	400
Tax after credits	-2,383	-1,609	816	2,176	4,791	14,816
(1) 25% of federal child and dependent care credit, not refundable, amount shown is usable amount						
(2) 17% of federal, refundable						
(3) Refundable, per child amount depends on KAGI						

Table 2 Hypothetical Taxpayers: Head of Household, 2 Children						
KAGI	20,000	35,000	60,000	80,000	125,000	300,000
Kansas income tax before credits	225	846	2,236	3,376	5,941	15,916
Credits						
Kansas child care credit (1)	225	375	300	300	300	300
Kansas EITC (2)	1,183	744	0	0	0	0
Proposed child credit	1,200	800	400	200	150	100
Child credit percentage of KAGI	6.00%	2.29%	0.67%	0.25%	0.12%	0.03%
Total credits	2,608	1,919	700	500	450	400
Tax after credits	-2,383	-1,073	1,536	2,876	5,491	15,516
(1) 25% of federal child and dependent care credit, not refundable, amount shown is usable amount						
(2) 17% of federal, refundable						
(3) Refundable, per child amount depends on KAGI						

Providing support for families with children provides a sound investment for the next generation of Kansans. According to James Heckman, the Nobel-prize winning economist:

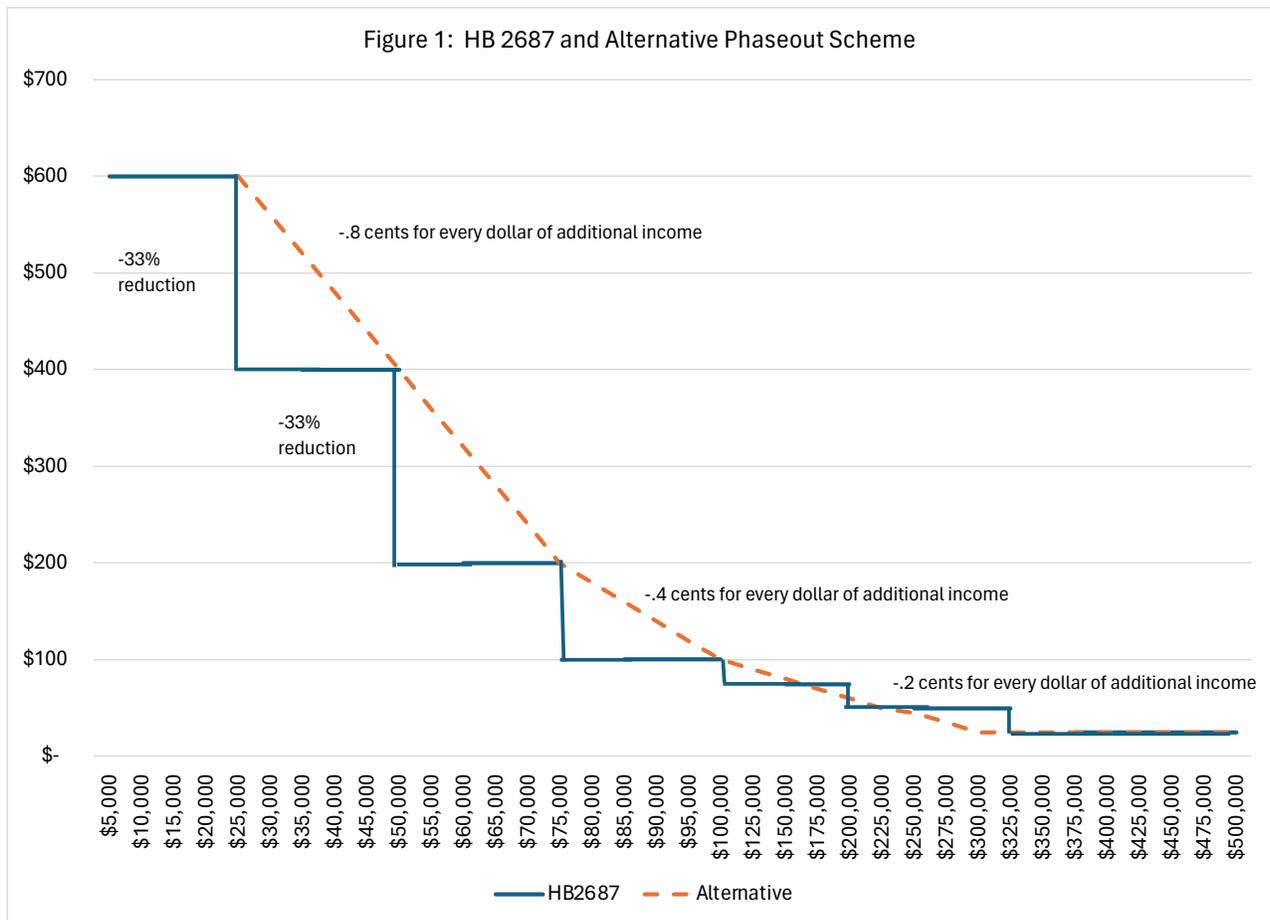
Data shows that one of the most effective strategies for economic growth is investing in the developmental growth of at-risk young children. Short-term costs are more than offset by the immediate and long-term benefits through reduction in the need for special education and remediation, better health outcomes, reduced need for social services, lower criminal justice costs and increased self-sufficiency and productivity among families.¹

¹ <https://heckmanequation.org/resource/invest-in-early-childhood-development-reduce-deficits-strengthen-the-economy/>

Alternatives to Consider

The bill as now written has several steps depending on KAGI. Consider the example of a household with a single child. The blue line in Figure 1 illustrates how the credit is adjusted as KAGI increases. If a household earns \$25,001 in KAGI their child tax credit drops by 33% from \$600 to \$400. This is a very high tax rate at a low level of income. The committee could consider a more gradual reduction in the credit. This is illustrated by the orange dashed line in Figure 1. In this example, the credit is reduced -.8 cents for every dollar of additional income up to \$75,000 in income and then is reduced more gradually by -.4 cents for every dollar of additional income up to \$100,000 in additional income and by -.2 cents for every dollar of additional income up to \$300,000. After that level of income, the child tax credit could be maintained at \$25.

If there are concerns about the fiscal note on the bill, the CTC could phase out above some income level such as \$200,000 in KAGI.



References:

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