



# A Minnesota Child Tax Credit would unleash the power of the tax code to fight child poverty

Poverty is not inevitable – instead, through smart, high-impact policy choices, we can make Minnesota a place where every child can participate in this state’s opportunity and prosperity. Minnesota should join a growing number of states that have created Child Tax Credits, building on the remarkable success of the expanded federal Child Tax Credit (CTC) in reducing child poverty and material hardship among families.

## Learning from the success of federal expanded Child Tax Credit

Families who receive the federal Child Tax Credit have more resources to cover the costs of raising healthy and thriving children. In 2021, the federal American Rescue Plan Act, or ARPA, temporarily made powerful changes to the federal Child Tax Credit that contributed to bringing child poverty down to record lows.<sup>1</sup> It increased the size of the CTC that families could receive and made policy changes so that the lowest-income families received the full value of the credit. It ensured that during tough times, families had the resources they needed to pay for food, clothing, housing, diapers, and other basic expenses.

A body of research demonstrates that boosting family incomes – through tools like income-targeted tax credits – expands opportunities for children and is associated with better school performance, better health outcomes, and higher earnings as adults.<sup>2</sup>

The expanded federal CTC’s effectiveness in reducing child poverty came from its focus on those families who are most likely to be left out of our country’s prosperity, including the lowest-income families, children of color, and children living in rural areas.

Among those who benefited from the federal CTC expansion were folks whose work has always been essential, and who we all relied on even more during the height of the pandemic, such as cashiers, nursing and home health aides, agricultural workers, and food preparation workers.

Unfortunately, Congress failed to make this high-impact strategy permanent, and hardship among children and families has risen without its powerful effect. An estimated 216,000 low-income Minnesotans under age 17 now do not qualify for the full value of the federal CTC because their family incomes are *too low*. Across the country, roughly 1 in 3 children living in rural areas receive less than the full value of the federal CTC because their family income is too low; Black and Latino children are also more likely to not receive the full value of the federal credit.

## States can fight child poverty through Child Tax Credits

States can and should build on the success of the federal expanded CTC by enacting their own state Child Tax Credits. Twelve states currently have some form of Child Tax Credit.<sup>3</sup>

To have the strongest anti-poverty impact, state Child Tax Credits should include the following features:

- Eligibility standards that prioritize lower-income families, who are those most likely to be struggling financially and be left out of the federal CTC.
- Ensure that the lowest-income families receive the full value of the credit by having no minimum earnings to qualify, and make it fully refundable. When a tax credit is fully refundable, that means the taxpayer gets the full value of the credit, even if it is more than the amount of income taxes that they pay.

- Make the credit permanent and adjust the credit amount and income requirements annually for inflation, so that the value of the credit does not erode over time.
- Ensure that families who use Individual Taxpayer Identification Numbers (ITINs) when filing their income taxes can qualify.

An exciting innovation of the federal expanded CTC was that families could receive a portion of their Child Tax Credit in monthly payments. States should lay the groundwork towards periodic payments, but initially, the CTC should be delivered once a year as part of the regular income tax-filing process. More policy work is needed, including at the federal level, to ensure that periodic payments do not have a negative interaction with families’ participation in federal assistance programs.

**Governor Tim Walz’s Child Tax Credit proposal**

Governor Tim Walz has made the creation of a robust state Child Tax Credit a centerpiece of his proposed budget. Walz allocates more than \$1 billion per biennium to create a CTC,<sup>4</sup> which has many similarities with a CTC proposal modeled by the Institute on Taxation and Economic Policy that is estimated to reduce child poverty by 25 percent.<sup>5</sup>

Features of Walz’s CTC proposal include:

- \$1,000 for each child or eligible adult dependent with special needs, up to a maximum of three dependents.
- A focus on modest-income families: the full \$1,000 per child credit would be available to families up to certain income limits, which are \$50,000 for married couples and \$33,300 for head of household income tax filers. Families could receive smaller credit amounts until they reach certain income limits, which depend on their family size and income tax filing status. (See table)

**Walz CTC proposal eligibility parameters by Adjusted Gross Income (AGI)**

	<b>Families receive the full \$1,000 per child with AGI up to</b>	<b>Families receive some Child Tax Credit until their AGI reaches</b>
<b>Married filing joint filers</b>		
<b>1 child</b>	\$50,000	\$60,000
<b>2 children</b>	\$50,000	\$70,000
<b>3 or more children</b>	\$50,000	\$80,000
<b>Single or head of household filers</b>		
<b>1 child</b>	\$33,300	\$43,300
<b>2 children</b>	\$33,300	\$53,300
<b>3 or more children</b>	\$33,300	\$63,300

The Minnesota Department of Revenue estimates that nearly 364,000 families with 697,000 dependents would be eligible for the proposed Child Tax Credit.

**Minnesota Senate Child Tax Credit proposal**

The Minnesota Senate has proposed \$649 million in FY 2024-25 and \$691 million in FY 2026-27 for a Child Tax Credit proposal structured much like Walz’s proposal. The primary difference is that the Senate’s proposal is for \$620 per child or eligible adult dependent. It has the same income thresholds at which families would receive the full value of the credit, and the same income levels at which families become ineligible as the Walz proposal. Nearly 364,000 families are estimated to qualify for a CTC under the Senate’s proposal.

The Columbia Center on Poverty and Social Policy estimates this proposal would reduce child poverty by 14 percent.<sup>6</sup>

### **Minnesota House Child and Working Family Credit proposal**

The Minnesota House takes a different approach. Rather than create a new stand-alone Child Tax Credit, the House adds a CTC component to the state’s existing Working Family Credit, and renames it the Child and Working Family Credit. The Working Family Credit is our state’s Earned Income Tax Credit (EITC), a refundable tax credit for lower-income workers and families based on their earned income and family size.

The proposed new Child and Working Family Credit would have two components: a Child Tax Credit component of \$1,275 per child and an additional Working Family Credit based on earned income. Families would qualify for the maximum amount of combined credit until their earned income reached \$28,000 for single filers and \$36,000 for married filing jointly filers. Importantly, unlike the other CTC proposals and the current Working Family Credit, the new per child credit amount would not be capped at three children.

Because the House is building on top of the existing Working Family Credit structure, the amount of new credit that families with earned income qualify for is not an *additional* \$1,275 per child. The amount of additional Child and Working Family Credit they receive will be less than \$1,275 per child, and will vary considerably depending on their family size, amount of earnings, and how much WFC the family is currently eligible for. For example, for a single parent with one child earning under \$28,000, the amount of new credit ranges from about \$500 to more than \$1,200. As with the other proposals, Minnesotans who file their taxes using ITINs would be eligible.

### **House Child and Working Family Credit parameters**

	<b>Families receive the maximum amount of credit until their earnings reach</b>	<b>Families receive some credit until their earnings reach</b>
<b>Married filing joint filers</b>		
<b>1 child</b>	\$36,000	\$55,722
<b>2 children</b>	\$36,000	\$69,889
<b>3 children</b>	\$36,000	\$84,056
<b>4 children</b>	\$36,000	\$98,222
<b>Single or head of household filers</b>		
<b>1 child</b>	\$28,000	\$47,722
<b>2 children</b>	\$28,000	\$61,889
<b>3 children</b>	\$28,000	\$76,056
<b>4 children</b>	\$28,000	\$90,222
<i>The income level at which families no longer qualify increases with each additional child.</i>		

The House omnibus tax bill proposes \$691 million in the FY 2024-25 biennium and \$717 million in the FY 2026-27 biennium in new dollars for the expanded Child and Working Family Credit.<sup>7</sup> A relatively small amount of these dollars would go to improve the Working Family Credit for low-income workers without children.

While the House and Senate proposals are about the same size in terms of the total dollars allocated, the House has a much stronger anti-poverty impact. The Center on Poverty & Social Policy at Columbia University estimates the House proposal would reduce child poverty by 26 percent.<sup>8</sup>

## **It's time for Minnesota to create a Child Tax Credit**

Given the powerful impact of the federal Child Tax Credit in reducing poverty and improving family economic well-being, it is not surprising that Minnesota policymakers from both major parties have introduced bills to create Child Tax Credits.

As they craft tax legislation this year, policymakers can enact transformational policies that would ensure more children and families have what they need to thrive. The crucial expanded federal Child Tax Credit received by families during the pandemic proved just how powerful these credits can be to change children's lives in the short and long term. Minnesota has the opportunity now and should not miss it.

*By Nan Madden*

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<sup>1</sup> Center on Budget and Policy Priorities, [Policy Basics: The Child Tax Credit](#), December 2022.

<sup>2</sup> Center on Budget and Policy Priorities.

<sup>3</sup> National Conference of State Legislatures, [Child Tax Credit Overview](#), January 2023.

<sup>4</sup> The legislative bill language for this proposal can be found in the governor's tax plan, [Senate File 1811 / House File 1938](#). Minnesota Department of Revenue, [Revenue Analysis of Governor's Tax Bill](#), March 1, 2023

<sup>5</sup> Institute on Taxation and Economic Policy and Center on Poverty and Social Policy, [State Child Tax Credits and Child Poverty: A 50-State Analysis](#), November 2022.

<sup>6</sup> [Results](#) produced by Center on Poverty and Social Policy at Columbia University at the request of House Research.

<sup>7</sup> The House proposal also includes about \$20 million per biennium to expand eligibility for the current Working Family Credit to ITIN filers. All three tax plans have such provisions.

<sup>8</sup> [Results](#) produced by Center on Poverty and Social Policy at Columbia University at the request of House Research.