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States are Boosting Economic Security with Child Tax Credits in 2023

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Key Findings

- Fourteen states provide Child Tax Credits to reduce poverty, boost economic security, and invest in children. States with fully refundable Child Tax Credits in 2024 are California, Colorado, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New Mexico, New York, Oregon, and Vermont. Idaho, Oklahoma, and Utah offer nonrefundable credits.

- This year alone, lawmakers in three states – Minnesota, Oregon, and Utah – created new Child Tax Credits while lawmakers in seven states expanded existing credits. Meanwhile, Arizona lawmakers created a one-time nonrefundable child tax rebate.

- State Child Tax Credits are larger than ever before, with five states – Colorado, Minnesota, New Jersey, Oregon, and Vermont - offering refundable credits at or above $1,000 per qualifying child. In all states collectively, these credits amount to a multibillion-dollar investment in children.

- To maximize impact, lawmakers should consider making their credits fully refundable, not including an earnings requirement, setting a maximum amount per child instead of per household, setting state-specific phase-out ranges that target low- and middle-income families, indexing to inflation, and offering the option of advanced payments.

Child Tax Credits (CTCs) are an effective tool to bolster the economic security of low- and middle-income families and position the next generation for success. When designed well, they counteract some of the deficiencies in the federal CTC and lead to meaningful reductions in child poverty and deep poverty.[1]

More state lawmakers are choosing to help families in this way: in 2024, 14 states will provide Child Tax Credits, many of which are targeted to those who most need them and made refundable so that children in the lowest-income families are not excluded from the full benefits. Together these credits constitute an annual multibillion-dollar investment in the next generation. As more states consider creating or strengthening these credits, lawmakers should design them for maximum impact.

Child Tax Credits: A Critical Tool to Help Families Make Ends Meet

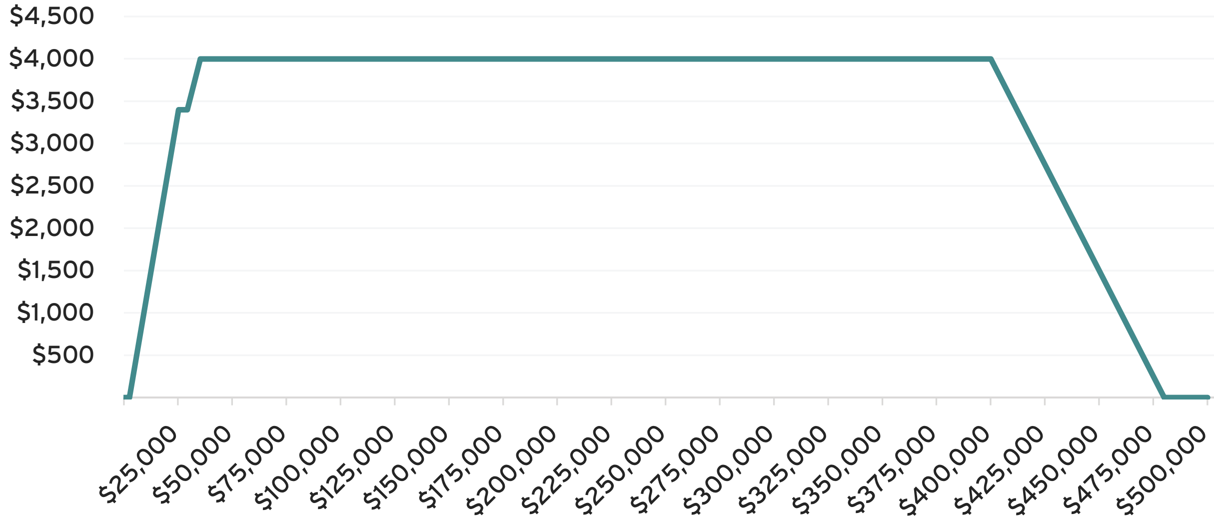
Refundable Child Tax Credits boost the after-tax incomes of qualifying families and offset some costs of raising children. These policies are especially important for the economic security and stability of lower-income families, helping avert unexpected hardship that can threaten basics like housing, food, and utilities. Child Tax Credits are associated with reduced poverty, higher financial and household stability, improved child and maternal health, better educational achievement, stronger future economic outcomes, and more.[2] These benefits are stronger with well-designed credits.

CTCs can boost the after-tax incomes and economic security of families of all races. When designed well, these credits are particularly helpful to the lowest income families and can make up for some of the damage done by other policies that hurt poor children and particularly harm Black, Hispanic and Indigenous children.[3] Economic inequality, low wages, and child poverty are defining challenges in the U.S. Systemic racism causes these problems to disproportionately weigh on Black families and other families of color. The federal CTC – particularly the expanded version in place in 2021 – helps address these challenges.

The federal CTC provides a credit of up to $2,000 for each dependent child under age 17. It phases out for married couples with incomes above $400,000 and for unmarried parents with incomes exceeding $200,000.

The federal CTC excludes some low-income families from receiving the full credit by requiring a minimum level of earnings and by not making the credit fully refundable to those whose income tax payments are smaller than the credit they would otherwise receive. Children whose parents or guardians earn less than $2,500 are ineligible for the federal CTC while families with earnings above this level receive a federal CTC limited to 15 percent of each dollar of earnings over $2,500 (until reaching a maximum credit of $2,000 per child). The CTC is also only partially refundable, meaning that families can only receive $1,500 per child in the form of a tax refund. In effect, the current CTC has a trapezoid-like structure where some families are too poor to receive any credit, some fall within the phase-in range, some benefit from the full credit, some fall within the phase-out range, and some families earn too much to receive the credit.

FIGURE 1. **Federal Child Tax Credit Structure in 2024 (Two-Child, Two-Parent Family)**



Source: Institute on Taxation and Economic Policy analysis, September 2023

Under the American Rescue Plan Act of 2021 (ARPA), the credit was temporarily expanded—for 2021 only—to $3,000 for older children and $3,600 for children under 5. It was reformed to allow monthly credit payments rather than one annual lump sum. And most importantly, it was reworked to reach more children, including nearly one-third of children who live in families too poor to qualify for the credit under permanent law. Absent federal action, 45 percent of Black children, 42 percent of Hispanic children, and 23 percent of white children will not receive the full credit next year due to limits that prohibit lower-income families from accessing the credit either in full or in part. Since current limits for lower income families disproportionately leave out children of color, removing the limits would disproportionately help these groups.

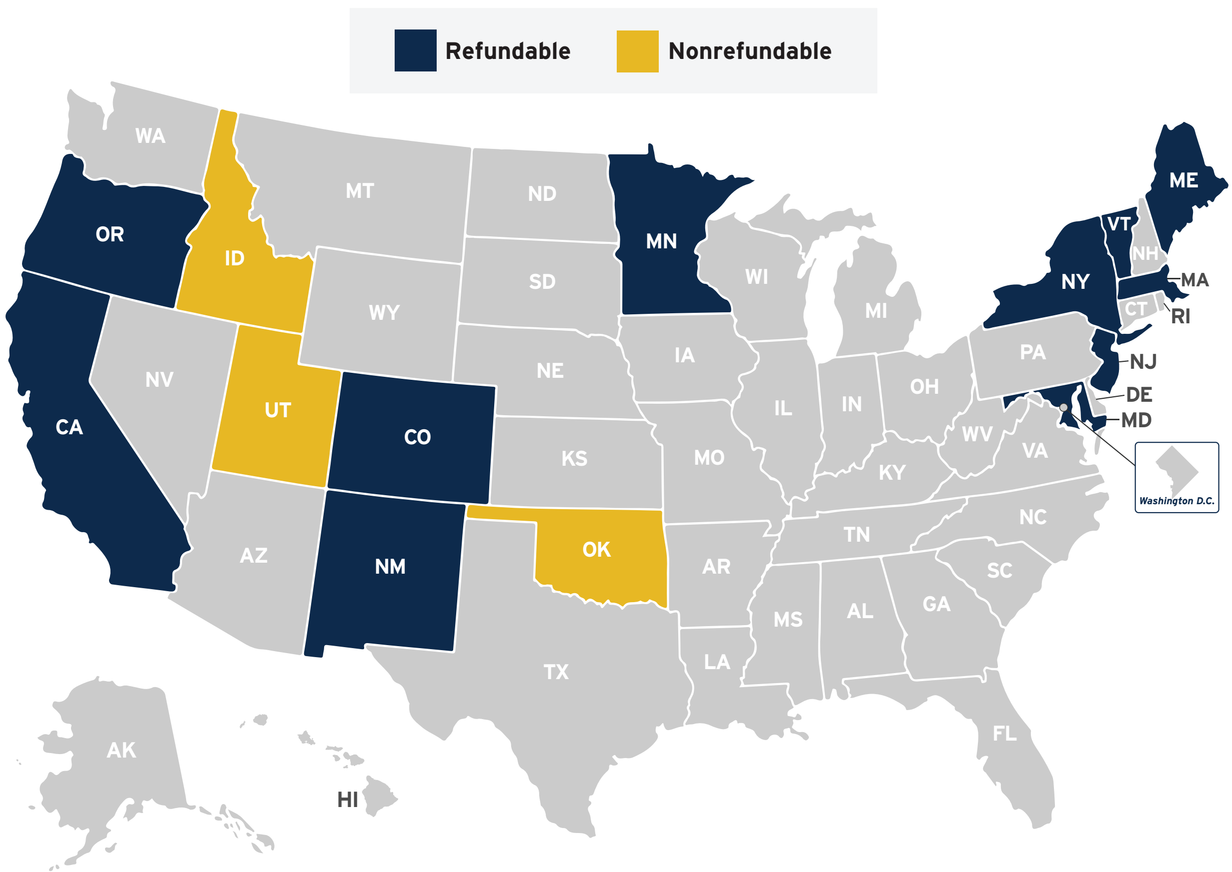
Since its enactment in the late 1990s, the federal CTC has grown and changed. For instance, under the Tax Cuts and Jobs Act of 2017 (TCJA), the credit rose from $1,000 to $2,000 per child through 2025, was reshaped to allow more affluent families to claim it, and was written to exclude immigrant children without Social Security numbers.[5] Prior to the TCJA, all children whose parents met the income eligibility requirements, regardless of citizenship status, received the federal version of the credit.

This expanded version of the federal CTC in 2021 was wildly successful in reducing child poverty, cutting it by 46 percent by lifting 3.7 million children out of poverty before it was allowed to lapse in 2022.[6] Research has since shown that low and middle-income households overwhelmingly spent this boosted credit on housing, food, and clothing – a testament to how vital an expanded CTC is to helping families make ends meet month-to-month.[7] In the absence of federal action to reinstate those reforms, state lawmakers are increasingly creating Child Tax Credits to boost income and opportunities for children and families in their states.

More States Adopting and Expanding Child Tax Credits

More and more lawmakers are adopting and expanding state-level Child Tax Credits. As we head into 2024, 14 states are providing Child Tax Credit benefits to families with children.

FIGURE 2. **State Child Tax Credits in 2024**



Source: Institute on Taxation and Economic Policy, September 2023

This year alone, lawmakers in three states – Minnesota, Oregon, and Utah – created new CTCs while lawmakers in seven states expanded their existing CTCs. Meanwhile, Arizona lawmakers created a one-time nonrefundable child tax rebate. These new and expanded credits are all permanent except for Arizona's 2023 rebate, Oregon's credit (which expires in 2029), and New Mexico's credit (now scheduled to expire in 2032). These new and expanded credits are also larger than ever before, with five states – Colorado, Minnesota, New Jersey, Oregon, and Vermont - offering refundable credits at or above $1,000 per qualifying child

In 2023, three states – Minnesota, Oregon, and Vermont – passed bills to explore providing advanced payments throughout the year, rather than as a once-a-year lump sum, to help families with their normal bills and other expenses.

FIGURE 3. **Enacting New and Enhancing Existing State Child Tax Credits: State Action in 2023**

State	Type	Description
Colorado	Expanded	Colorado's credit was enhanced to no longer match a percentage of the federal credit. The credit is now based on taxpayers' filing status and income, providing access of the full benefit to children in families with no income. The credit is also newly indexed to inflation.
Maine	Expanded	Maine's Dependent Exemption Tax Credit was made refundable and is now indexed to inflation to account for the rising cost of living.
Maryland	Expanded; Made Permanent	Maryland enhanced its limited, temporary credit by making it permanent and more widely available. Children under 6 with family income below $15,000 are now eligible and disabled dependents under 17 continue to qualify.
Minnesota	New	Minnesota lawmakers created a CTC of $1,750 per child under 18 for households with income below $29,500 for single filers and $35,000 for married filers (the credit phases out above that income threshold). The credit is available to households filing with an ITIN as well as a Social Security number and both the credit and brackets are indexed to inflation.
New Jersey	Expanded	New Jersey lawmakers doubled the maximum credit for their state CTC a year after its enactment. Families now qualify for a credit that ranges between $200 and $1,000 per child under 6 depending on household income, up to $80,000.
New Mexico	Expanded; Extended	New Mexico's credit was expanded and extended. The per-child credit amount increased for households who make under $75,000 who can now claim a credit of $200 to $600 per child. The credit is now also available to households filing as Married Filing Separate. The credit was initially set to sunset in 2026, but is now set to expire in 2032.
New York	Expanded	New York's Empire State Child Credit was expanded to include children under 4, a group for whom tackling the early effects of poverty has the greatest payoff.
Oregon	New	Oregon lawmakers created a CTC that provides a $1,000 credit per child under 6. Families making under $25,000 qualify for the full credit, and the credit phases down between $25,000 and $30,000 of income. The new CTC can be claimed using an ITIN or a Social Security number and both the credit and income thresholds are indexed to inflation.
Utah	New; Nonrefundable	Utah created a nonrefundable CTC of $1,000 per child under 4. Families can qualify for the full amount, dependent on state income tax liability, with incomes under $43,000 for single filers or $54,000 for married filers. The credit begins to phase out after these thresholds.
Vermont	Expanded	Vermont's CTC, created in 2022, provides $1,000 per child under 6 for households making under $125,000. Households making under $165,000 receive a reduced amount. This year, Vermont lawmakers expanded their CTC to families filing with an ITIN as well as a Social Security number.

While most states have created CTCs that are independent of the federal Child Tax Credit, two states -Oklahoma and New York - have credits directly tied to some version of the federal CTC.

- Oklahoma offers families a choice between a nonrefundable credit worth 5 percent of the federal CTC or a nonrefundable credit worth 20 percent of the federal Child and Dependent Care Tax Credit. The state limits the credit to taxpayers with incomes under $100,000. This credit doesn't fully reach families in or on the verge of poverty because it is nonrefundable, meaning it cannot be used by lower-income families who have little state income tax liability but pay substantial amounts of sales, excise, and property taxes.
- New York has a refundable credit worth $100 per qualifying child or 33 percent of the taxpayer's allowable federal credit, whichever is greater. Lawmakers in New York decoupled their state credit (the Empire State Child Credit) from changes to the federal CTC occurring after 2017, so they continue to maintain a maximum credit of $330 (that is, 33 percent of the $1,000 maximum federal credit in place before TCJA) along with other pre-TCJA tax parameters. This year, New York's legislature greatly improved the reach of the credit by extending eligibility to children under 4, recognizing that tackling the early effects of poverty has the greatest payoff.

In 2019, Massachusetts transformed two separate deductions into refundable credits. The Household Dependent Tax Credit replaced the state's deduction for household dependents and now provides $180 per dependent and $360 for two or more dependents. Dependents in this case include a broad set of people: child dependents, senior dependents, and dependents with disabilities. People can choose between this Household Dependent Care Tax Credit or the Dependent Care Tax Credit but cannot take both. These are available on top of the state's existing dependent exemption. Policymakers and advocates in Massachusetts continued to consider enhancements to this policy this year.

Other states have policies that resemble CTCs but are either far less robust or best thought of as state CTCs in name only.

- In 2018, Idaho and Maine added nonrefundable dependent credits to their tax codes to replace lapsed personal exemptions. In practice, exemptions directly reduce taxpayer income while a credit reduces tax liability. Maine improved upon its credit this year by making it refundable. Generally, these credits would be stronger if they were available on top of existing dependent exemptions or if they were made substantially larger (and refundable, where applicable) to account for the lack of dependent exemptions in these states. Colorado also lacks a separate dependent exemption.
- California also offers personal credits (via the California Dependent Exemption Credit) in place of exemptions, yet this is in addition to the state's Young Child Tax Credit. These credits are broadly comparable to dependent exemptions that are offered in most states.

States Should Design Child Tax Credits with Equity in Mind

The lapse of 2021's federal Child Tax Credit enhancements inspired state action in 2023 and could continue to do so going forward. In the absence of additional action by Congress, and to best support families with children, states have several options to strengthen economic security and child well-being through new or expanded CTCs. Lawmakers should design these state CTCs with an eye toward equity by ensuring that the credit reaches as many low- and moderate-income children as possible.

1. Ideally, lawmakers should create standalone refundable CTCs that would ensure that all children benefit, regardless of their family's employment or immigration status.

The advantage of implementing a credit separate from the federal CTC is that states can avoid the shortcomings of the federal credit (particularly the earnings requirement and lack of full refundability) that keep many lower-income families from receiving the full benefit. Instead, states can use the flexibility they have to determine the scope and scale of their credits without these restrictions.

That flexibility allows state lawmakers to:

- **Make the credit fully refundable**. Refundability is key to the CTC's success. If a credit is refundable, taxpayers receive a refund for the portion of the credit that exceeds their income tax bill. Refundable credits help offset all taxes paid, not just income taxes, helping mitigate some of the regressive effects of state and local sales, excise, and property taxes.
- **Avoid an earnings requirement**. Earnings requirements mean that families with lower earnings get a smaller credit or no credit at all, paradoxically structuring a policy meant to help children to exclude kids who are the most in need. All children, regardless of the amount of income their parents bring in per year, should benefit from a robust state CTC.
- **Set a maximum amount per child, rather than per household, to not penalize children in larger families**. Lawmakers should also provide a more robust credit to younger children in their formative years when an income boost is found to be most beneficial.
- **Set state-specific phase-out ranges that can better target the credit to low- and middle-income families**. Setting a lower phase-out range enables the state credit to reach families in need while dramatically reducing the cost. If lawmakers are most interested in poverty reduction, an administratively simple approach for states with Earned Income Tax Credits could be to mirror EITC phase-outs, creating a tightly targeted state CTC.[8]
- **Index the credit to inflation so that it does not erode over time**. Whether and how policies are indexed for inflation has major implications for their power to improve economic well-being and reduce poverty over the long run.[9]
- **Make the credit available on an advanced or monthly basis**. Research shows that monthly cash payments reduce poverty and keep it low year-round.[10] This provides families flexibility to meet financial needs in real time and prevent debt.

2. If unable to create a standalone credit, lawmakers could enact a CTC as a percentage of the federal credit in combination with a minimum credit.

States can piggyback CTCs on top of federal rules at a flat percentage rate, as many do with their EITCs. For example, a state CTC calculated as 10 percent of the federal CTC would amount to a $200 state credit for any child who receives it in full.

State lawmakers should not, however, amplify the worst features of federal law. It is important to ensure that children in families too poor to receive the full federal credit are not denied the full state benefit. Lawmakers should establish a minimum, refundable benefit of $200 per child for lower-income families. This option would still rely upon the federal CTC's high phaseout range through 2025 (starting at $400,000 for married parents and guardians, $200,000 for single parents and guardians)—providing more sweeping tax cuts to families throughout the income distribution at a relatively high cost to state coffers. Decoupling from federal law in favor of a standalone CTC benefit, as described above, would allow states to implement their own, likely lower, phase-out ranges.

3. Lawmakers could also opt to fill the gap for children left behind by the federal CTC.

State lawmakers can make up for the shortcomings of the federal CTC by ensuring that children in families too poor to receive the full credit are brought up to the full $2,000 amount, or to some portion of that amount. This approach ensures that a state's lowest-income children are not left behind. Of these three options, this is the most carefully tailored to reach only those families in the most vulnerable economic circumstances. As a result of its narrower reach, this option could also cost less than the other proposals described above, which may be appealing to some lawmakers concerned about the budgetary impact of more expansive CTC proposals.

Under any of these options, states should explore advanced or monthly payments in addition to annual payments. Recent federal experience suggests that this approach can play a role in meaningfully reducing child poverty, improving economic security, and expanding family access to critical resources like groceries, housing, and clothing.[11]

The approaches under options two and three would fail to bring in non-citizen children unless state lawmakers took additional action. Parents who are undocumented immigrants, or filers using Individual Taxpayer Identification Numbers (ITINs) often live, work, and pay taxes in the U.S. These families are often specifically left behind by federal and state policies. Lawmakers can ensure that these filers, who would otherwise meet eligibility criteria, are not denied access.[12]

APPENDIX 1. State Child Tax Credits, 2024

State	Refundable	Permanent	ITIN Inclusive	Age Eligibility	Maximum Credit	Phaseout Begins	Phaseout Ends	Annual Revenue Impact	Dependent Exemption
California	Yes	Yes	Yes	Under 6	$1,163 per household	$25,000 of earnings	$30,896 of earnings	$460M	$438 credit
Colorado	Yes	Yes	Yes	Under 6	$1,200 per child	AGI of $25,000 (single), $35,000 (joint)	AGI of $75,000 (single), $85,000 (joint)	$45.6M	None
Idaho	No	No, temporary through January 1, 2026	No	Under 17 or permanently disabled	$205 per child (not to exceed income tax liability)	N/A, no phaseout		$68.3M	None
Maine	Yes	Yes	Yes	Under 17	$300 per child	Maine AGI exceeds $400,000 married or $200,000 otherwise	Maine AGI of $440,000 married or $240,000 otherwise	Less than $220M	None
Maryland	Yes	Yes	Yes	Under 6 or disability under 17	$500 per child	N/A - not available to those with federal AGI over $15,000		$17.9M	$3,200
Massachusetts	Yes	Yes	Yes	Under 12, adult dependents 65+, disabled dependents	$180 for one dependent, $360 for 2 or more dependents	N/A, no phaseout		$142.3M	$1,000
Minnesota	Yes	Yes	Yes	Under 18	$1,750	Greater of earned income or AGI below $31,168 (single/HOH), $36,979 (joint)	Income of $63,000 (single/HOH), $69,000 (joint) for two children. Threshold is higher with each additional child, phases down with the Working Family Credit.	$418.5M	$5,070
New Jersey	Yes	Yes	Yes	Under 6	$1,000 per child	NJ taxable income of $30,000	$80,000 of NJ taxable income	Less than $260M	$1,500
New Mexico	Yes	No, temporary through January 1, 2032	Yes	Under 17	$683 per child	$25,000 of earnings	N/A (lower tiered credit as earnings increase)	$176.6M	$2,500 (low-middle-income) plus separate $4,000

State	Refundable	Permanent	ITIN Inclusive	Age Eligibility	Maximum Credit	Phaseout Begins	Phaseout Ends	Annual Revenue Impact	Dependent Exemption
New York	Yes	Yes	Yes	Under 17	$330 per child	Income of $75,000 (single), $110,000 (joint)	Income (AGI) over roughly $85,000-$200,000 (single), $120,000- $250,000 (joint), depending on number of children.	Roughly $780M	$1,000
Oklahoma	No	Yes	No	Under 17	$100 per child (not to exceed income tax liability)	N/A - Not available if income over $100,000		$37.2M	$1,000
Oregon	Yes	No, temporary through January 1, 2029	Yes	Under 6	$1,138 per child	Income of $26,450 (based on two dependents)	Income of $31,450 (based on two dependents)	$36.3M	$249
Utah	No	Yes	No	Under 4 and over 12 months	$1,000 per child (not to exceed income tax liability)	Income (AGI) of $43,000 (single), $54,000 (joint)	Income (AGI) of $63,000 (single), $74,000 (joint) for two children. Threshold is higher with each additional qualifying child.	$9.6M	$1,802
Vermont	Yes	Yes	Yes	Under 6	$1,000 per child	Income of $125,000	Income of $175,000	$31.8M	$4,350

Notes: Revenue data come from various official sources and reflect FY 2024-25 estimates in California and Colorado; FY 2024 estimates in Maryland, Minnesota, New Jersey, New Mexico, Oregon, Utah and Vermont; a FY 2023 estimate in Massachusetts, FY 2021 estimate in Maine with a FY 2024-25 adjustment for recent changes, FY 2020 estimate in New York with an adjustment for recent changes, TY 2023 estimate in Idaho, and a TY 2020 estimate in Oklahoma. Maine, New Jersey, and New York's estimates are unclear: Maine's estimate was initially reported in combination with other provisions; New Jersey provided a range estimate for the recent change; and New York's estimates (of the base credit and enhancement) are reported separately in different years. Credits, phaseouts, and dependent exemptions are adjusted for inflatation, providing estimates for 2024, where applicable.

Source: Institute on Taxation and Economic Policy analysis of state tax forms and recently enacted legislation. September 12, 2023.

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