Testimony for the Joint Fiscal Committees
SFY 2024-25 Executive Budget
Taxes Budget Hearing
February 14, 2024

Thank you for the opportunity to submit testimony on the 2024-25 New York State Executive Budget. The Schuyler Center for Analysis and Advocacy (SCAA) is a 151-year-old statewide, nonprofit organization dedicated to policy analysis and advocacy in support of public systems that meet the needs of disenfranchised populations and people living in poverty.

Introduction: Top Budget Recommendations

In the 2024-25 Budget, we urge New York to take action in the tax code to make New York State an affordable home for families by implementing the following proposals:

1. **Strengthen and expand New York's refundable tax credits by increasing the credits, making them more inclusive, and targeting the largest credits to the lowest-income New Yorkers -- in much the same way as the federal child tax credit was enhanced during the pandemic.** Specifically, to have the greatest impact on child poverty and deliver the greatest tax savings to families struggling under the weight of record inflation New York should:

- restructure the Empire State Child Credit (ESCC) and NYS Earned Income Tax Credit (EITC) so the highest credit goes to the lowest-income families, by ending regressive minimum income requirements and phase-ins;
- increase the credit amount of the ESCC and EITC to provide families meaningful support;
- make the EITC available to as many immigrant families as possible by making the credit available to New Yorkers who file with Individual Tax Identification Numbers (ITINs) as is already allowed for taxpayers filing to receive the ESCC; and
- pay credits monthly or quarterly to smooth-out income and help families keep up with bills.

Notably, the *Working Families Tax Credit,* S.277B Gounardes/A.4022B Hevesi, described below, does all of the above.

2. **Exempt Oral Health Products from the Sales Tax by passing A.8415 Woerner/S.8349.** Making oral care products, such as toothbrushes, toothpaste, and dental floss more affordable will make it easier for New Yorkers to maintain their oral health and prevent serious disease and illness. MD and FL have enacted this exemption; New York should follow suit.

3. **Review whether businesses have applied for the Child Care Creation and Expansion Tax Credit and reconsider this approach.** This tax credit was created in the FY 2024 New York State Budget; if few have applied, the State should reallocate remaining funds to a strategy proven to expand child care capacity: workforce compensation.

Detailed Recommendations

Recommendation: Expand the Empire State Child Credit to Support Families Facing Deep Poverty and Increase the Credit Amount

When the federal child tax credit was temporarily expanded in 2021 as a form of pandemic relief, child poverty rates dropped by nearly half, both nationally and here in New York State, confirming the immense effectiveness of refundable tax credits for reducing child poverty, particularly if targeted to reach the poorest and youngest.[1] Unfortunately, the expanded federal credit, which brought regular monthly payments to families for the second half of 2021, ended. For many of New York's poorest families, the end of the expanded credit meant they received no federal or state child tax credit in 2022. It is critical that New York expand and strengthen its state child tax credit, especially for New York families facing the most financial hardship by (1) making the credit available at the highest credit amount for those families with the lowest (including no) income; (2) increasing the credit to provide meaningful support for families; and (3) ensuring the credit continues to be available to as many immigrant families as possible.

Cash transfers via tax credits can have big poverty-reduction impacts.[2] With no serious federal proposals on the horizon to provide economic support to struggling families, it is up to New York State to lead.

New York should expand the Empire State Child Credit by eliminating the income phase-in and increasing its amount. These actions would put New York on track to turning the tide on child poverty.

Recommendation: Expand New York's Earned Income Tax Credit to include immigrant New Yorkers and young childless adults and increase the credit amount for families with children

Refundable tax credits like the Earned Income Tax Credit (EITC) can encourage work because the credit amount rises as earnings rise to a maximum level, and then phases out slowly as a worker's earnings increase. The EITC also plays an outsized role in reducing child poverty in New York, constituting the largest state tax credit low-income families receive. In tax year 2021, more than 865,844 New York State taxpayers with children filed EITC claims. The maximum credit available to a family with two children was $1,794, and the average credit for that composition of family, $980.[3] Excluded from the state and federal EITC, however, are young and childless adults ages 18 through 24, even though they experience poverty at rates higher than most adults.[4,5] Also excluded are many immigrant tax-filers. Experts estimate there are 107,000 children in households that do not qualify for EITC financial support solely because a parent files taxes using an Individual Tax Identification Number (ITIN).[6] Many low-income workers who are ineligible for the federal or state EITC are taxed into poverty or deeper poverty in part because they cannot receive the EITC.[7] Expanding the state tax credit to reach more immigrant New Yorkers and young childless adults would help lessen or end this inequity.

Notably, temporary federal pandemic-era expansions (in 2021) nearly tripled the maximum credit for single, childless federal EITC recipients, and expanded the federal EITC to reach young adults, reducing the minimum age from 25 to 19 for most workers. For students who attended school at least part-time, the age limit was temporarily reduced from 25 to 24. And for former foster children and youth experiencing homelessness, the minimum age was temporarily reduced from 25 to 18, preventing an estimated 200,000 young adults from being taxed into poverty or deeper poverty in 2021.[8]

New York should expand and strengthen the state EITC by (1) adjusting filing requirements so more tax-paying immigrant New Yorkers can receive the state EITC; (2) increasing the percentage of the federal credit paid to families from 30% to 45%; and (3) expanding the credit for young adults without children (ages 18 through 24) who are currently ineligible for either the federal or state credit.

Recommendation: Create a strong, streamlined Working Families Tax Credit that combines and strengthens the State CTC and EITC

The Working Families Tax Credit, S.277B Gounardes/A.4022B Hevesi, proposes combining and strengthening New York's ESCC and EITC. For individual New Yorkers and families currently eligible for the ESCC, EITC, or both, the combined credit they would receive from the WFTC would be greater, or equal to the sum of the two credits. For the lowest income, and many immigrant New Yorkers, the credit amount would be significantly greater under the WFTC.

The WFTC builds upon the strengths of New York's ESCC and EITC, and corrects their shortcomings. Eligible families with children would receive a WFTC equal to or greater than the current EITC credit plus child tax credits for all children in the household. It would eliminate the income phase-ins currently in place for both credits to allow families with the lowest incomes to receive the full credit amount, and would be available to immigrant tax filers with an Individual Tax Identification Number (ITIN) in the same manner as filers with a Social Security Number. (This is currently the case with the ESCC, but not with the EITC.) The maximum credit would phase-in to $1,600, indexed to inflation, over a five-year period, and all families would receive a minimum $500 credit per child, regardless of income. Finally, the WFTC would be paid out in four increments throughout the year**.**

New York should enact the Working Families Tax Credit, S.277B Gounardes/A.4022B Hevesi.

Recommendation: Exempt Oral Health Products from the Sales Tax

The Schuyler Center supports A.8415 Woerner/S.8349 Brouk to exempt essential dental hygiene products from the sales tax. Making oral care products, such as toothbrushes, toothpaste, and dental floss more affordable, will make it easier for New Yorkers to maintain their oral health and prevent serious disease and illnesses. Maryland and Florida have both enacted this exemption in recent years; New York should follow suit.[9] [10]

Most people do not know a great deal about oral health because the health of the teeth, the gums, and the rest of the mouth—is not usually included in what we traditionally consider health care. Yet, a healthy mouth is vital for a healthy life. Far too many New Yorkers suffer from dental pain and the burden of high dental treatment costs. Poor dental health results in missed days of work, poor performance in school, and acute and chronic pain.[11, 12]

While oral health has improved overall for most Americans, like many chronic diseases, some people remain disproportionally impacted, including children living in poverty, racial and ethnic minorities, frail elderly, and other socially marginalized groups, such as immigrant populations.[13] These disparities relate to many of the same social and economic factors that drive other health disparities.[14] Access to medical and dental care, along with factors such as poverty, racism, education, access to healthy foods, culture, and physical environment, influence oral health status in the same way these factors influence overall health. [15]

Poor oral health has human, financial, and social costs. Studies show that children with poor dental health are three times more likely to miss class and more likely to have a lower grade-point average than their healthy peers.[16, 17] Adults who have decayed or missing teeth are less likely to get or keep a job.[18]

The products outlined in the legislation should be considered tax exempt because they are designed and intended to prevent illness and disease. Yet, instead of being considered as "products used for the preservation of health" or "products that are intended to affect the structure or a function of the human body," dental products are considered "cosmetics and toiletries" in New York's tax code along with mustache wax, bronzers and bubble bath.[19]

Purchasing dental hygiene supplies and frequently replacing toothbrushes has cost implications that can be prohibitive for lower-income families and individuals. Head Start providers report families sharing toothbrushes or not replacing toothbrushes as recommended. For adults with limited finances, purchasing products recommended on a regular schedule to maintain their oral health can stretch discretionary income, even while good oral health is considered an important factor in diabetes management or living independently.[20, 21] **New York should eliminate any financial barrier to these essential dental hygiene products to make it easier for individuals can prevent tooth decay, cavities, and gum disease.**

There is no fiscal estimate on this legislation yet, but we urge policymakers to tackle this issue in the budget, to make these health care products more affordable while reinforcing New York's position that oral health is a critical part of overall health.

New York should enact A.8415 Woerner/S.8349 Brouk to exempt essential dental hygiene products from the sales tax.

The Child Care Creation and Expansion Tax Credit Program: an Unproven Approach to Addressing the State's Child Care Capacity Shortage

The FY 2024 NYS Budget included a Child Care Creation and Expansion Tax Credit to encourage child care providers to expand capacity for infants and toddlers by offering a refundable tax credit for tax years 2023 and 2024 to those businesses that have created new capacity for infants and toddlers either in a program run by the business, or in partnership with a child care provider. A further requirement is that the business has paid a significant portion of the tuition costs for its employees.[22] Businesses were able to apply for the credit for the 2023 tax year during the month of January 2024. We are eager to learn how many businesses have applied because the credit is modeled after one offered in New York City beginning in spring 2022, and which we understand had few, if any, applicants in its first year. [23]

The need for child care capacity is significant. However, the root cause of declining child care capacity is that the child care business model does not work. In the words of US Treasury Secretary Janet Yellen, "child care is a textbook example of a broken market."[24] The costs of providing high quality care are high because children need one-on-one attention to grow and thrive. And yet, most parents need child care at the exact moment when they can *least* afford it – at the beginning of their career when their income is lowest. They simply cannot pay more.

We are skeptical that a time-limited credit encouraging business to expand child care capacity can be successful until such time as New York directs sufficient public funds to child care providers to allow them to cover the true cost of care. Further, this credit is not structured to encourage business collaboration with the family-based providers that disproportionately serve New York's low-income families. This could further entrench inequities in the sector. Finally, business-centric solutions to the child care crisis have the potential to intensify inequities in access and detrimentally tie children's early childhood development environments to their parents' employment. Child care is an essential public good and families' ability to access it should not depend on their employers. Our goal remains a universal child care system that is free and accessible to all New Yorkers.

What works best to enable child care programs to operate at maximum licensed capacity and grow capacity is direct wage supplements to retain and grow their workforce while New York transitions to a new provider reimbursement model and workforce pay scale. The investment the child care provider community is calling for in 2024 is $1.2 billion for a permanent compensation supplement the child care workforce working for licensed, registered programs, and $50 million to increase rates for family, friend and neighbor providers.[25]

New York should review whether businesses have applied for the Child Care Creation and Expansion Tax Credit for TY 2023, and if few have, it should reallocate remaining funds for the tax credit to a strategy proven to expand child care capacity: workforce compensation.

Who Benefits from Film Production Tax Credit Expansion

The FY 2024 New York State Budget included a significant expansion to the State's film tax credit, projected to cost the State an additional **$280 million per year**.[26] Last year's expansion of the film credit is surprising, given a 2013 report of the New York State's Tax Reform and Fairness Commission's Final Report concluded that the film credit should be scaled back.[27] More recently, in a report released on December 30, 2023, an independent auditing firm concluded that the "Film Production Credit program does not provide a positive return to the state in terms of direct state taxes revenues, with $0.15 in direct tax revenue and $0.31 for all combined state tax revenue for every $1.00 invested."[28] Even considering harder to measure benefits that may be accrued from the credit, like creating more exposure for New York City and New York State in film and television, the report concluded that "the film production credit is at best a breakeven proposition and more likely a net cost to NYS." In contrast, there is clear and recent data about the effectiveness of cash transfers for families with children.[29]

New York should prioritize proven tax benefits for New York families over questionable incentives for film companies.

Background

Families Are Struggling to Afford Life in New York State

Faced with stubbornly high inflation and record high food costs, families across New York State are struggling to make ends meet.[30] At the same time, COVID-19 pandemic relief initiatives have been rolled back, including expanded SNAP benefits, school meals, and enhanced child tax credits.

It is clear that New York families need relief. Meaningful, refundable tax credits for families can provide that relief, enabling families to meet immediate needs and deliver long-term benefits. Extensive research shows that cash and near-cash benefits (such as tax credits) improve children's health and educational outcomes, increase future earnings, and decrease costs in the realms of health care, child protection, and criminal justice.[31]

Powerful evidence confirms the effectiveness of tax credits. The 2021 pandemic expansion of the federal Child Tax Credit, which increased the credit, particularly for low-income families, and paid it out monthly—dramatically and quickly cut child poverty nearly in half nationally and in New York State. Congress allowed the expanded federal child tax credit to expire, ending that relief for families. As a result, in 2022 and in 2023, nearly all but the wealthiest New York families with children paid more in taxes; many of the state's lowest income families received no federal or state child tax credit.

New York has committed to cutting child poverty in half; tax policy has a key role

There are more than four million children residing in New York State. Nearly one-in-five are experiencing poverty and 37% live in low-income (below 200% of the federal poverty level) families, who struggle to make ends meet.[32, 33] Children in Black, Hispanic/Latino, and multi-racial families experience poverty at much higher rates than non-Hispanic white children, the result of systemic and ongoing racism in housing, education, employment, and other systems. Evidence shows a lack of economic resources for families compromises children's ability to grow and achieve adult success, hurting them and society.

Far too many children in New York State live in poverty, and many more struggle to make ends meet. For more than a decade now, New York has hovered above 30th in the nation for child poverty. Stated another way, NY children are more likely to experience poverty than children in 30 or more other states.[34]

In 2021, the New York State Legislature passed, and Governor Hochul signed into law, the New York State Child Poverty Reduction Act. The Act committed the State to reducing child poverty by half over the following decade and established the Child Poverty Reduction Advisory Council (CPRAC), which is tasked with monitoring the State's progress and making policy recommendations to move the state toward its goal. CPRAC, now entering its second year as an advisory council, has recognized that progress toward a statewide reduction in child poverty requires sustained and systemic approaches that uplift children and families in all New York communities—rural, urban, and suburban.

Please see our brief on this topic, *A State Commitment to Reducing Child Poverty*, linked, and attached to the testimony.

About Us

Schuyler Center is the home of and participates in the leadership of *Empire State Campaign for Child Care,* a campaign that advocates for universal child care in New York State and the compensation child care providers deserve, and New York Can End Child Poverty, a group dedicating to ending child poverty in New York. Schuyler Center also participates in the leadership of the Child and Family Wellbeing Action Network (CFWAN), advocates, providers, and people impacted by New York's child welfare system working towards a vision of New York where the state prioritizes investing in and implementing policies that strengthen and support children, youth and families; serves on Steering Committees for *Raising New York*, dedicated to the health and well-being of the youngest New Yorkers; *Kids Can't Wait*, focused on reform and improvement of New York's Early Intervention program. Dede Hill, Schuyler Center's Director of Policy, is an appointee to New York's Child Care Availability Task Force and Kate Breslin an appointee to New York's Child Poverty Reduction Advisory Council.

Thank you. We appreciate the opportunity to submit testimony and look forward to continuing to work with you to build a strong New York.

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