

**Testimony**  
**Joint Legislative Budget Hearing**  
**Tax**  
**February 14, 2024**

**Presented by:**  
**Pete Nabozny, Director of Policy**  
**The Children's Agenda**

## **Overview**

Thank you to the chairs and members of the respective committees for the opportunity to submit testimony on the 2024-25 New York State Budget.

My name is Pete Nabozny, and I am the Director of Policy for The Children's Agenda in Rochester, NY. We are a children's policy and advocacy organization focused on improving the well-being of children prenatally through young adulthood. Through analysis, advocacy, and collaboration with partners locally and statewide, we support the implementation of programs and policies that address the serious challenges facing children and families.

Our testimony today is in support of the **Working Families Tax Credit, S.277-B (Gounardes)/A.4022-B(Hevesi)**. We urge lawmakers to ensure that this legislation is included in the enacted 2024-25 New York State budget.

## **Current Tax Policy Supports for Families and Children**

New York State's tax code contains several provisions that reduce taxes for families with children and provide financial support to low-income families. These tax policies are a recognition that the costs associated with raising children are considerable, that our tax code should acknowledge that families with children typically have tighter household budgets than tax filers with similar incomes but no children, and that New York's income tax return process is an efficient way to deliver financial support to families.

However, New York's tax credits and exemptions for families with dependent children are **fragmented** and the structure of those tax provisions **limits their effectiveness**.

The four largest tax expenditures aimed at families with children in New York's personal income tax code are:

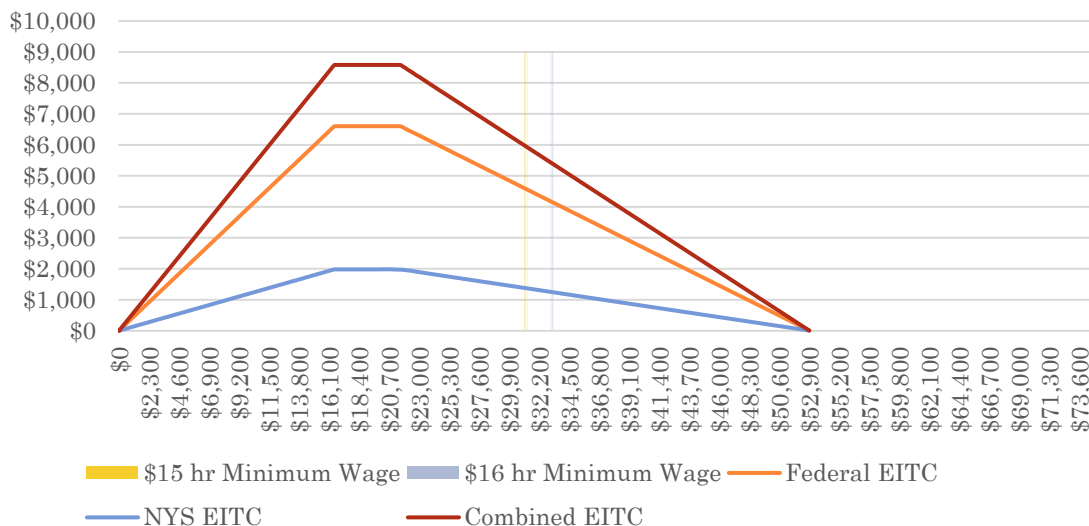
- **Empire State Child Credit:** A refundable child tax credit of up to \$330 per child for middle class and lower income families. Credit amounts and income

eligibility levels have not been adjusted for inflation since it was adopted in 2006. Families making below a certain amount are subject to a penalizing phase-in and are not eligible for the full \$330 per child credit.

Number of Children	Annual Income Needed to Receive Full \$330 per child credit
1	\$9,667
2	\$16,333
3	\$23,000
4	\$29,667
5	\$36,333

- Earned Income Credit:** A highly targeted refundable credit of up to \$2,229 for a family with three or more children. Tax filers without children can receive a small refund, but the credit is principally designed to support families with dependent children. The Earned Income Credit is adjusted for inflation each year, but subjects full-time workers in New York State at the state minimum wage to a steep loss in benefits for each additional dollar earned.

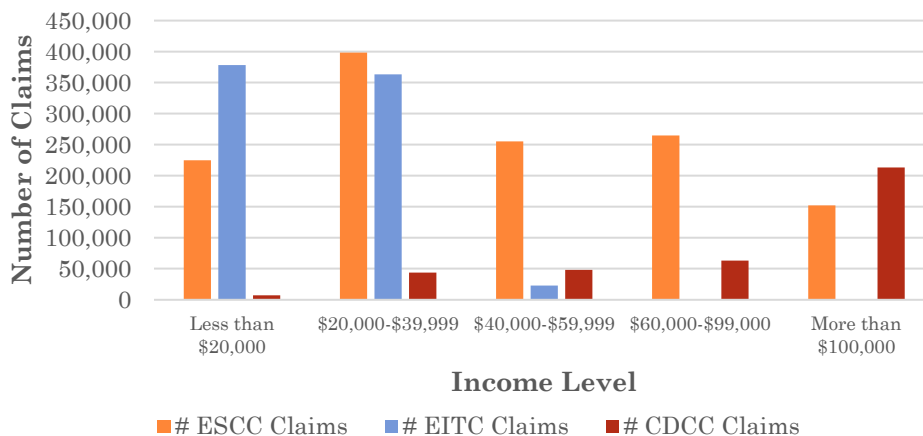
### Earned Income Tax Credits and New York State's Minimum Wage, Single Parent with 2 Children



- Child and Dependent Care Credit:** A refundable tax credit meant to help parents afford the cost of child care while they work. The average credit size was \$318 in 2021. This credit is structured to provide a significantly larger

credit to the lowest income families, but very few families making less than \$50,000 a year claim the credit.

## Number of Claims by Household Income and Credit Type, 2021



- Dependent Exemption:** A tax provision that reduces the amount of income eligible for taxation by \$1,000 per dependent. Given New York’s progressive income tax system, this exemption disproportionately benefits the wealthiest families in New York State and provides no benefit to the lowest-income filers in the state.

Single Parent/Head of Household	
Income Range	Tax Reduction Per Child
\$0 to \$11,200	\$0.00
\$11,201 to \$24,000	\$40.00
\$24,001 to \$28,850	\$45.00
\$28,851 to \$32,100	\$52.50
\$32,101 to \$118,850	\$58.50
\$118,851 to \$280,500	\$62.50
\$280,501 to \$1,627,650	\$68.50
\$1,627,651 to \$5,011,200	\$96.50
\$5,011,201 to \$25,011,200	\$103.00
Over \$25,011,200	\$109.00

Married Couple	
Income Range	Tax Reduction Per Child
\$0 to \$16,050	\$0.00
\$16,051 to \$33,200	\$40.00
\$33,201 to \$39,650	\$45.00
\$39,651 to \$43,950	\$52.50
\$43,951 to \$177,600	\$58.50
\$177,601 to \$339,250	\$62.50
\$339,251 to \$2,171,400	\$68.50
\$2,171,401 to \$5,016,050	\$96.50
\$5,016,051 to \$25,016,050	\$103.00
Over \$25,016,050	\$109.00

### Total Cost of Existing Credits and Exemptions

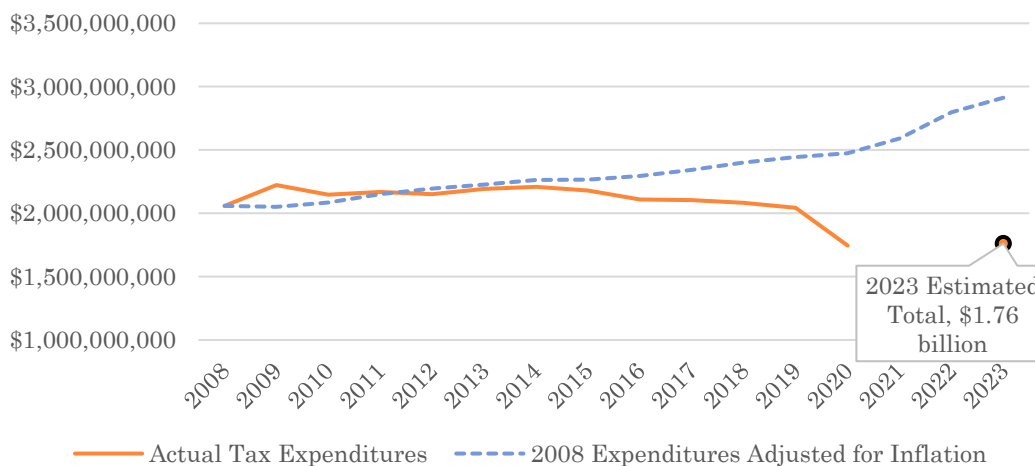
New York State spending on these credits and exemptions peaked at \$2.2 billion in 2014 and slowly declined for several years before the onset of the COVID-19

pandemic. Spending then fell sharply to \$1.7 billion in 2020 and is projected to remain close to that level in 2023.<sup>1</sup>

Some of the reduction in tax expenditures on children and families can likely be attributed to the declining number of births and children in New York State, though other factors may contribute as well. For example, only the Earned Income Tax Credit is adjusted for inflation, so rising household earnings may have lifted some people out of the credit eligibility ranges for the Empire State Child Credit and the larger credit income ranges of the Child and Dependent Care credits. In addition, as noted above, New York's increasing minimum wage during this period may also contribute to declining EITC expenditures.

In total, New York's Department of Taxation and Finance expects to spend \$1.76 billion on these expenditures again in 2023, though the state's estimate does not include the expansion of the Empire State Child Credit in last year's budget. Accounting for that new cost, the state's spending on these four tax provisions should approach \$1.9 billion this year. However, if 2008 spending levels had grown with inflation since then, total state expenditures would be approximately \$3 billion in 2023.

NYS Combined Tax Expenditures on Empire State Child Credit, Earned Income Tax Credit, Child and Dependent Care Credit & Dependent Exemption, by Year



Taken together, New York's tax expenditures on families with children:

- 1) Exclude low-income families from receiving the maximum benefit
- 2) Subject full-time minimum wage workers to high tax credit phase-outs

<sup>1</sup> See [New York State Tax Expenditure Report \(ny.gov\)](https://www.ny.gov/newsroom/new-york-state-tax-expenditure-report)

- 3) Are not robust enough to substantially cut child poverty and improve affordability
- 4) Exclude many immigrant families from receiving the full benefit
- 5) Contain some regressive features, benefiting some upper-income families more than families with modest incomes
- 6) Have declined over the past decade, especially when compared to the rate of inflation

New York's tax credits and exemptions for families are based on aspects of the federal tax code as it existed prior to the 2017 federal tax reforms. While building upon the federal tax code is easier from an administrative perspective, New York should not accept and amplify flaws in the federal code. Instead, policymakers in New York should customize the state's tax code today to meet the needs of families in our state, while demonstrating a better path for our federal partners to take in the future.

The proposed Working Families Tax Credit addresses shortcomings in existing state family tax policy by consolidating three of New York's existing credits and exemptions into a larger, simpler, and more supportive child tax credit. The Working Families Tax Credit would provide a \$500 to \$1,600 per child credit to families with children under 17 years old in New York State. Over the past decade, New York State spent an average of \$2 billion a year on tax expenditures to support children and families. The Working Families Tax Credit is a bold proposal that aims to repurpose and build upon that spending to significantly reduce child poverty throughout New York State, position the state as a leader in child poverty reduction and economic security, and make every part of New York a more affordable place to raise children.

The Children's Agenda fully supports this legislation and we urge the New York State Senate and Assembly to include it in their one-house budget resolutions this year.

Again, thank you for the opportunity to submit testimony to the committee. Please feel free to contact me for clarification or more information.

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