Testimony before the Joint Fiscal Committees
On the SFY 2018-19 Executive Budget
Taxes Budget Hearing
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The Schuyler Center would like to thank the chairs and members of the respective committees for the opportunity to submit testimony on the 2018-19 New York State Executive Budget. The Schuyler Center is a 146-year-old statewide, nonprofit organization dedicated to providing policy analysis and advocacy in support of public systems that focus on people in need. The Schuyler Center often works in areas that fall between multiple systems including health, welfare, human services, and early care and learning. Schuyler Center leads and participates in several coalitions focused on children and families. For more about Schuyler Center and our work, please visit our website www.scaany.org.

Thank you for this opportunity to provide testimony.

OVERVIEW

This year, the federal tax overhaul – the Tax Cuts and Jobs Act – presents New York with tremendous challenges, but also with an opportunity to step back and reflect on who we are as a state and consider how to respond in a way that reflects New York's values. We challenge New York to use this opportunity to revise our tax code such that it plays a more central role in fighting child poverty, encouraging equitable growth, and countering the federal tax code's expansion and entrenchment of income inequality.

According to the non-partisan Tax Policy Institute, the tax benefits of the federal tax law will overwhelmingly favor individuals and families in the highest income brackets, while the tax benefits for low-income working families will be negligible, and for those in the middle, modest. Specifically, it calculates that the lowest quintile of taxpayers will receive an average tax cut of $60 in 2018, middle-income taxpayers will receive an average cut of $900, and the top 1%, an average cut of $51,000.[1] The limits on state and local tax deductions (SALT) in states like New York will lessen the tax benefits considerably for New Yorkers across the income spectrum.

One bright spot in the federal tax overhaul is the strengthening of the federal child tax credit to up to $2,000 per child ($1,400 of which is fully refundable), which will result in modest tax relief to some low and middle-income families with children, at least over the next few years. The benefits of the increased child tax credit, however, will be mitigated by the elimination of personal deductions which will increase taxable income for most families, particularly large families.[2] And, the federal tax law renders many non-citizen immigrant children – including DREAMERS (immigrant children brought to the United States without immigration authorization by their parents) – ineligible for the federal child tax credit.[3,4] It is estimated that about one million immigrant children across the nation will lose the federal child tax credit (although they may be able to claim a much smaller $500 non-refundable dependent credit).[5] As a result, many working immigrant families with non-citizen children will likely see their federal tax liability increase under the new law.

Even with the modest federal tax relief for most low-income families, the federal tax law is unlikely to make a real dent in New York's persistent high rates of child poverty, particularly if it is followed by significant cuts to the nation's safety net in the coming months, as is widely anticipated. Nearly one quarter of all New York children live in poverty, and that percentage is significantly higher among children of color and is concentrated in some communities. Thirty-four percent of Hispanic, 32% of Black, and 29% of American Indian children live in poverty, as compared to 13% of white children. What is more, even when parents work, children continue to live in poverty: 606,435 children, or 65% of children in poor families, have a parent who is employed at least part-time.[6] A greater percentage of New York children live in poverty than in 33 states, and only two states have a higher percentage of homeless students than New York.[7, 8] When other economic indicators are taken into account, like housing burden, New York's child economic well-being ranking drops to 41st in the nation.[9]

We know that poverty contributes to a host of long-term negative outcomes in all aspects of a child's life. A child's socioeconomic status is the strongest predictor of academic achievement[10] and poverty is linked to cognitive deficits in children that can manifest as early as nine months of age.[11] Impoverished children are much more likely to suffer from chronic health conditions like asthma and diabetes, and even transitory childhood poverty yields poorer health outcomes in adulthood.[12] Childhood poverty not only comes at great personal cost to children – often holding them back from realizing their potential for a lifetime, but at tremendous economic costs to communities and the nation. One study published by academics from University of Chicago and Northwestern, put the national costs associated with child poverty at $500 billion per year.[13]

And, the federal tax overhaul, with its benefits skewed so sharply toward higher income earners, threatens to make income inequality more extreme in New York State – which is already ranked first in the nation for the expanse of the income divide (as measured by the ratio between the top one percent and bottom 99 percent).[14] New York State is now home to more ultra-wealthy individuals (those worth more than $30 million) than any other state except California.[15]

That the tax overhaul will likely widen the income divide in New York is worrisome because there are a growing number of studies that demonstrate that income inequality leads to distinct negative outcomes for children in lower-income families relative to wealthy families. For instance, income inequality has been shown to directly undermine equality of opportunity insofar as children from families with less income have far less access to social networks and enrichment opportunities than children from wealthy families, increasing the likelihood that children from low-income families get stuck on less lucrative career paths and grow up to be low-income adults.[16] A high degree of income inequality has been associated with increased rates of child maltreatment.[17]

The good news is that even modest income transfers to low-income families—particularly families with young children—can yield tremendous benefits for children and their families, including improved physical, emotional and behavioral health, higher educational attainment and increased future earnings.[18,19] Working family refundable tax credits are one important means of building family economic security and independence, and pulling families and children out of poverty.[20]

STRENGTHEN THE STATE'S WORKING FAMILY TAX CREDITS BEGINNING WITH THE EMPIRE STATE CHILD CREDIT.

New York currently offers robust working family tax credits including:

- a state Earned Income Tax Credit (EITC),
- a state child tax credit, called the Empire State Child Credit, and
- a state child and dependent care credit.

Each of these credits can boost family income, even among the lowest earners, because, unlike in many other states, New York's credits are fully refundable. This means the lowest income working families can receive the full credit to which they are entitled even if the credit amount exceeds the amount of taxes the family owes. Many New York families benefit from these working tax credits.

As noted, the federal tax overhaul is not going to provide low-income New York families significant income boosts, and will likely reduce after-tax income for some working immigrant families.[21] And federal cuts threaten the scaffolding of supports that enable many working families, including immigrant families, to pull themselves out of poverty and into economic stability. **Accordingly, we urge the State to strengthen New York's working family tax credits, beginning with the Empire State Child Credit.**

Enacted in 2006, New York's Empire State Child Credit provides eligible taxpayers a credit equal to 33% of the federal child tax credit or $100 per qualifying child, whichever is greater. More than 1,470,000 families received the credit for tax year 2015. The average credit amount families received was $439.[22] **While New York is a leader in the nation in offering a refundable child tax credit, the state credit contains a significant flaw: it excludes children under age four from eligibility—the very group that is most severely impacted by poverty, and would most benefit from receiving a credit.**

Notably, while the new federal tax law increases the federal child tax credit for most families, lowers the phase-in rate and raises the income level at which it begins to phase out, the Governor's Executive Budget proposes to continue to tie the Empire State Child Credit to the federal child tax credit **as it existed prior to the 2018 federal tax overhaul.** Thus, the Executive Budget, if passed, would keep the State's credit at current levels. The Executive Budget does not propose to expand the State's credit to include children under age four.

The exclusion of New York's youngest children from a credit that exists to offset the high costs of raising children defies logic. Further, expanding the Empire State Child Credit to cover children 0 to 4, and bolstering the credit for the state's youngest, would bring this law in line with the growing body of research establishing how critical are the early years, and how investments in young children pay dividends for a lifetime. Reflecting this understanding, the State has already taken steps to target investment in our youngest New Yorkers in implementing its path-breaking First 1,000 Days on Medicaid initiative. Strengthening the Empire State Child Credit for young children would complement and build upon these efforts. Further, because the Empire State Child Credit is one of a very few supports available to many hard-working immigrant families – particularly now that they are ineligible for the federal child tax credit – it is critical for these families that their youngest children are covered.

Schuyler Center urges the Legislature to expand the Empire State Child Credit to include children under age four, and double the credit for these very young children to help set young New York families on a path to economic security, and their children on a path to success.

NEW YORK: AN OPPORTUNITY STATE

We urge the Legislature to place a special focus on aiding families in achieving economic security, providing children a strong early start, and reducing inequality and deprivation, by supporting the recommendations in this testimony as steps toward laying more stones of the path of opportunity for all of New York's families and children. Strengthening the State's working family tax credits, beginning with the Empire State Child Credit, will not only enable more New Yorkers to achieve their potential and thrive, but will also yield significant cost savings down the road.

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

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