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for Analysis and Advocacy

Testimony before the Joint Fiscal Committees on the SFY 2020-21 Executive Budget Taxes Budget Hearing February 13, 2020

Presented by
Dede Hill, Policy Director
Schuyler Center for Analysis and Advocacy

The Schuyler Center thanks the chairs and members of the respective committees for the opportunity to submit testimony on the 2020-21 New York State Executive Budget. The Schuyler Center is a 148-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.

Our priorities this year, as in the past, focus on strengthening families before they experience crises or trauma and preventing families from enduring hardships like ill-health, economic insecurity, child welfare involvement, or encounters with juvenile justice. Another over-arching priority: ensuring comprehensive and strategic investment in our youngest New Yorkers, ages 0 to 3, when their brains and bodies are most rapidly developing, with impacts that can last a lifetime.

Schuyler Center leads and participates in several coalitions focused on children and families, including Raising New York; the Child Welfare Coalition; CHAMPS (Children Need Amazing Parents); the Empire State Campaign for Child Care; *Winning Beginning New York*; Ready for Kindergarten, Ready for College; Fostering Youth Success Alliance; Raise the Age; Medicaid Matters New York; and a statewide workgroup on maternal, infant, and early childhood home visiting, which brings together State agencies, providers and advocates to strengthen coordination between and access to important whole-family interventions.

For more about Schuyler Center and our work, please visit our website www.scaany.org.

Overview

All New York children need strong and economically stable families, healthy bodies and minds, safe homes and communities, and a sound education. All New York children need all of these things, every year. Yet, too often, the state balances the budget by shifting funds from one program essential to child and family well-being to fund another program essential to child and family well-being. Or it delays investments long overdue.

Unfortunately, that appears to be the case again with this Executive Budget.

While this Executive Budget contains some important proposals and new investments, it is not a budget that puts children and families first. At best, this budget, if enacted, would require our children and families to continue to "make do" with inadequate resources. At worst, when the many proposed cuts are implemented at the county level – including the cap on Medicaid spending – many New York families that are already facing obstacles like disability, ill health, racism, and poverty will be left in a worse position.

This is of concern for many reasons, perhaps chief among them that New York children live in poverty at alarming rates. Indeed, New York children are more likely to live in poverty than in 31 other states.[1] And New York's high rate of child poverty is not new. For more than a decade, the percentage of New York children living in poverty has exceeded 19%.[2] Further, the younger the New York child, the more likely the child is to live in poverty. More than 23% of New York children under the age of five live below the federal poverty level—at exactly the time in their development when they are most vulnerable to poverty's devastating impacts.[3]

The uncomfortable truth is that New York has long had the means to tackle child poverty. New York boasts the 11th biggest economy in the world (just after Canada), with a budget this year that will exceed $178 billion.[4] The state has experienced steady economic growth since emerging from the great recession in 2011. New York is poised to take bold, transformational action to sharply reduce child and family poverty, and provide all New York children a fair chance to thrive.

Tax Policy – With Working Family Tax Credits as a Centerpiece – Can Play a Significant Role in Reducing Child Poverty in New York and Moving Families into Family Economic Security.

We challenge New York to use the state's tax code to fight child poverty, encourage equitable growth, and counter the federal tax code's expansion and entrenchment of income inequality.

One challenge facing working families in New York – and across the nation – is that low wages without benefits keep many workers, notwithstanding their diligence or dedication, from ever moving from poverty into economic security. Further, most poor working people are not teenagers, but adults, and often, parents.

Among the many obstacles standing between New York working families and economic security is the high cost of quality child care. High-quality child care costs an average of $15,000 annually per child, which is prohibitively expensive for nearly all low- and middle-income families.[5, 6] Indeed, applying federal guidance, which prescribes affordability at no more than 10% of family income, child care is unaffordable for nearly all New York families. Under this standard, to "afford" the annual cost of center-based care, a family with one child must earn a minimum of $150,000; a family with two children in care, $300,000.[7] (For perspective: median income in New York State for a family of 4 is about $89,000; annual salary for a single parent earning $15 an hour minimum wage is about $31,000.)

The bottom line: for low-wage working parents, earnings alone cannot pull their families out of poverty, particularly if they have to pay for child care. The math simply does not work.

One way New York can help make low-income workers' paychecks stretch further is by **expanding and strengthening working family tax credits**.

Adopt the Governor's Proposal to Expand the Empire State Child Credit to Cover the State's Youngest Low-Income Children, and Further Enhance the Credit to Enable More Families to Move Out of Poverty and into Economic Security.

Since its creation in 2006, the state's child tax credit – the Empire State Child Credit – has inexplicably excluded young children under the age of four from coverage. This year, the **Executive Budget** proposes to expand the Empire State Child Credit to include children under age four in low-income families. **We fully support and applaud this important proposal, and urge**

the State to use this opportunity to make this tax credit even stronger. The evidence is clear: investing in our youngest New Yorkers can yield tremendous benefits for children and their families, including improved physical, emotional and behavioral health, higher educational attainment and increased future earnings.[8,9]

At present, New York's Empire State Child Credit provides eligible taxpayers a credit equal to 33% of the federal child tax credit that existed prior to the passage of the 2018 federal tax overhaul, or $100 per qualifying child, whichever is greater, for children age 4 through 17. The Governor's proposal would begin to fill in this omission by making the credit available to those taxpayers with children under age four with a state adjusted gross income of $50,000 or less. In contrast, for older children, the credit begins to phase out for single filers at $75,000 and for joint filers at $110,000 adjusted gross income. In tax year 2017, 1,418,452 New York families received this credit. The average claim amount was $443 per family.[10]

With this important Executive Budget proposal, New York has the opportunity to make this credit play an even more powerful role in child poverty reduction. In fact, robust refundable child tax credits and child allowances have been shown be among the most effective strategy for reducing child poverty. The landmark 2019 *Consensus Study Report: A Roadmap to Reducing Child Poverty* by the National Academies of Sciences, Engineering, and Medicine found that a $250 per month child allowance for low-income children could, by itself, reduce child poverty nationally by more than 40%. If New York were to provide a $1,000 credit for young children, adding that to the $2,000 per child federal child tax credit, tens of thousands of young, low-income New York children would receive the equivalent of an allowance equal to $250 per month.[11]

Creating a robust young child tax credit in New York through our Empire State Child Credit would have the added benefit of providing much needed support to immigrant families ineligible to access many other supports – including the federal child tax credit – as New York's child tax credit is structured such that it is available to many hard-working immigrant families. It would also reach those families experiencing deep poverty who are excluded from the federal child tax credit (which begins to phase-in at $2,500 of income).[12]

The Schuyler Center urges the Legislature to adopt the Executive Budget proposal to expand the Empire State Child Credit, and build upon it by:

1. **removing the credit's phase-in so that it is available to the state's poorest children, and acts more like a child allowance;**
2. **increasing the maximum for the young child credit from $330 to $1,000, and raising the phase-out to be the same as is in place for older children. This will give the most help to babies and toddlers who are in the age group most likely to live in poverty and are currently excluded from the state's child tax credit; and**
3. **expanding the existing credit to $500 for children four years and older.**

<u>Adopt the Governor's Innovative Proposal to Ensure More Eligible New Yorkers Receive the EITC, Expand the Credit to Cover Young Childless Adults Ages 18 Through 24, and Strengthen the Credit for New York Families.</u>

The **Executive Budget** proposes that the Tax Department automatically issue refunds for the Earned Income Tax Credit to taxpayers who have unclaimed credits. **We applaud and support this proposal, and urge New York to take additional steps to enhance and strengthen the EITC.**

The EITC is one of the best ways to "make work pay" for low-income families and individuals, and research shows that children of EITC recipients are healthier and do better in school. The state's EITC provides eligible taxpayers with children a refundable credit equal to 30% of the federal child tax credit. Non-custodial parents are also eligible for a credit, along with most childless adults – although this credit is considerably smaller. In tax year 2017, 1,548,212 New York State taxpayers filed EITC claims; the average credit overall was $668. The average credit for a family with two children was $1,113.[13]

A number of groups that would benefit from the credit are completely excluded from the federal and state EITCs. Among them: young childless adults ages 18 to 25 at exactly the period in their lives when they are struggling to gain their footing in the workforce and build a nest egg for a future family. The poverty rate for young New York adults is 20%, far exceeding the 14% poverty rate for New York State overall.[14] This exclusion from both EITCs has left them particularly at risk of becoming disconnected with the labor force because members of this age group that work in low-wage positions are taxed into poverty under the federal tax code.[15]

Included among this group are many of the state's foster youth who age out of foster care, who experience homelessness, food insecurity, and unemployment at higher rates than their peers. In addition, many of New York's teens 16 through 18 are disconnected both from school and the workforce, making them more likely to live in poverty as young adults. Six percent of New Yorkers ages 16 through 18 are neither in school nor working.[16] That percentage reflects racial and ethnic disparity: 9% of Black and 10% of Latino or Hispanic New Yorkers ages 16 through 18 are disconnected from both school and work, compared to only 4% (less than half) of their non-Hispanic White peers.

Further, the EITC has been shown to encourage workforce participation because it is structured to increase with wages, to a certain point, then gradually decrease. For workers living paycheck to paycheck, like many young adults, the additional money provided by the EITC can keep an individual from falling into a devastating cycle of debt or enable a purchase on a durable good – like a car or washing machine – that could improve the individual's quality of life immeasurably. Moreover, the EITC has been found to have an important intangible effect: it allows low-income recipients to plan for upward mobility by allowing them, once a year, to possess a significant sum of money to use to buy an item they could not otherwise afford.[17]

Another excluded group: many hard-working immigrants who pay millions of dollars in taxes and make significant contributions to our economy, but cannot access the EITC under current rules.[18]

In addition to expanding the EITC to cover these excluded groups, the structure of New York's EITC structure should be reoriented around the State's rising minimum wage to ensure it continues to encourage work by phasing out slowly as recipients achieve economic security. As currently structured, the EITC begins phasing out for a family with one child at $25,000 of earnings; and is reduced by more than one-half the maximum at $31,000 of earnings – which represents annual earnings at $15 an hour. The credit is no longer structured to encourage low-wage workers to work more, and to enable them to move into economic security.

Finally, the EITC would help working New Yorkers better meet their monthly bills if it was paid out on a quarterly basis, rather than once a year.

The Schuyler Center supports the Executive Budget proposal to allow automatic payment of the EITC to eligible taxpayers as an important way to ensure more eligible New Yorkers receive this tax credit. We also urge the State to build upon this proposal by further strengthening the EITC by expanding the credit to include young, childless adults and immigrant ITIN filers, reorienting the credit around the rising minimum wage, and paying out the credit on a quarterly basis.

New: 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 on the path of opportunity for all of New York's families and children. Strengthening the state's working family tax credits 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.

Dorothy (Dede) Hill
Policy Director
Schuyler Center for Analysis and Advocacy
518-463-1896 / DHill@scaany.org
www.scaany.org

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