REPORT

TAX CREDITS

Louisiana needs a strong families tax credit

By Neva Butkus

Poverty in Louisiana is a moral and economic crisis. If the 857,894[1] Louisianans who live below the poverty line - including 1 of every 4 children - were a city, it would be the eighth largest city in the South, behind Charlotte. But that only tells part of the story. It doesn't count the hundreds of thousands of Louisianans who live just above the poverty line but still struggle to make ends meet each month. According to the United Way's ALICE Report, 51% of Louisiana households did not make enough to cover basic necessities even before the pandemic.[2]

Poverty is expensive, and it charges interest. When children and their families are forced into poverty through low wages and unemployment, it manifests in toxic stress, poor health outcomes, lower educational attainment and increased likeliness of risky behavior. The National Academies of Sciences, Engineering and Medicine[3] estimates that the outcomes of child poverty cost the American economy between $800 million and $1.1 trillion each year.

For poor children to reach their full potential in the future, their families need additional resources today. An effective way to do that is to follow the lead of other states by creating a child tax credit, targeted at low- and middle-income families. For less money than the state spends each year to subsidize film and TV production,[4] the Strong Families Tax Credit would help reduce the economic gap between Louisiana's rich and poor, and lift up Black and Brown communities that have been held back by systemic racism.

TAX CREDITS CAN REDUCE CHILD POVERTY

For decades, the federal government has used tax credits to help families with low incomes afford basic necessities such as housing, food and child care. These credits work by reducing the income taxes people owe. If the amount of the credit is greater than the taxes owed, the difference is returned to the taxpayer as a refund. Research has shown that the Child Tax Credit and the Earned Income Tax Credit, working together, are an effective tool for reducing poverty. In 2019, these credits lifted 7.5 million Americans, including 4 million children, out of poverty.[5]

Many states build on these powerful tax credits by providing their own credits against state income taxes. Currently, 29 states and the District of Columbia, including Louisiana, have their own EITC.[6] Louisiana's credit - the second lowest in the nation - is 5% of the federal EITC, and about 1 in 3 tax filers in our state claim the credit each year. But only six states - California, Colorado, Idaho, New York, North Carolina and Oklahoma - currently have a child tax credit.[7]

At an estimated cost of $165 million per year, Louisiana could provide a refundable tax credit of $200 to $500 per child for every household earning less than $100,000 per year. Households would claim the credit on their state tax returns, and if they owed less than the credited amount would receive the credit as a tax refund.

THE STRONG FAMILIES TAX CREDIT WOULD ALLOW HOUSEHOLDS WITH INCOMES BELOW $100,000 TO CLAIM AN ANNUAL $200 TO $500 REFUNDABLE TAX CREDIT PER CHILD		
	$0-$50,000	$50,000-$100,000
Ages 0-5	$500 per child	$300 per child
Ages 6-18	$300 per child	$200 per child

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While state EITCs work by matching a portion of the federal credit, child tax credits vary more from state to state and can function independently of the federal credit. The Strong Families Tax Credit we propose for Louisiana is structured to provide the biggest benefits to families with children younger than 6, where it is likely to do the most good, and to those with the lowest incomes.

Research has consistently shown that reducing child poverty during early childhood has the greatest impact on future outcomes.[8] Taking a cue from Colorado's Child Tax Credit,[9] Louisiana's Strong Families Tax Credit would provide the biggest benefits to children from birth through 5. This is because households with infants and toddlers typically have lower incomes than households with older children, and are more likely than parents of school-aged children to incur costs for child care or to require more time at home with their children.[10] The credit is reduced at age 6, when most children are in school and are eligible for programs such as free and reduced-priced lunch.

By targeting benefits to parents with low and moderate incomes, the credit would provide an important income boost for households that are struggling to afford basic necessities. The United Way's ALICE Report calculates that a family of four in Louisiana needs nearly $70,000 annually for a household "survival budget."[11] But this budget just covers the cost of necessities such as rent, transportation and groceries, and does not account for repayment on student loans or other debt or savings. For this reason, we have proposed two income brackets to make the credit progressive. Households with incomes under $50,000 would receive a credit of $300 to $500 per child due to expenses like daycare, food, clothing, and housing taking up a larger share of their income. Families with incomes above $50,000 would qualify for a credit of $200 to $300 until their annual income exceeds $100,000.

WHO BENEFITS FROM THE STRONG FAMILY TAX CREDIT?	
Number of households receiving the credit	473,000
Number of households in poverty receiving the credit	182,000
Percent of children impacted	61%
Number of children impacted	888,000
Percent of children in poverty impacted	100%

Source: Institute on Taxation and Economic Policy

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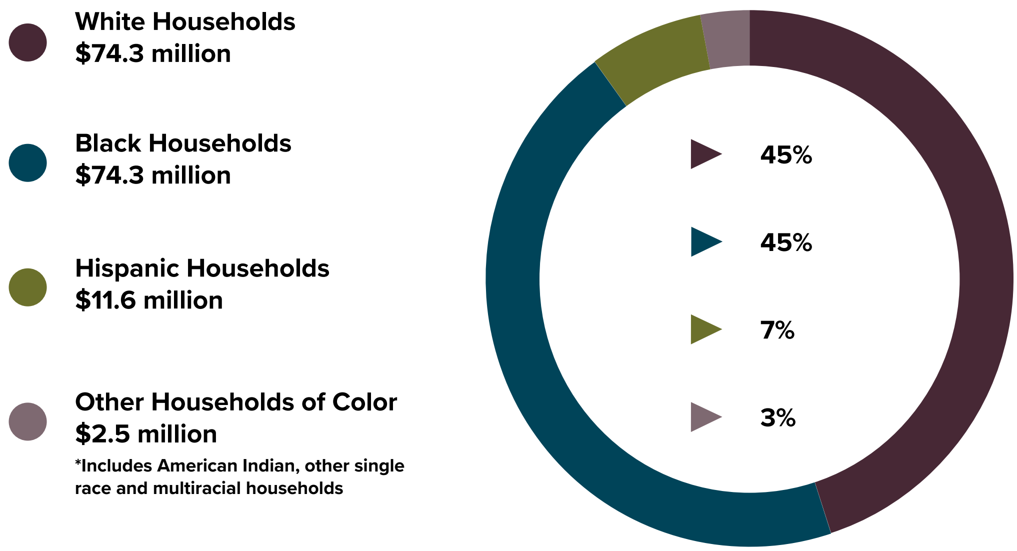
With these two brackets, the total cost of the credit would be about $165 million per year, with 94% of the benefits going to households with incomes below $55,000 per year.

The two-tiered structure, along with the income cap, also means the credit would disproportionately benefit households of color who have historically been held back from the benefits of a growing economy. People of color make up 42%[12] of Louisiana, but will receive 55% of the credit.

THE STRONG FAMILIES TAX CREDIT WILL TARGET MILLIONS OF DOLLARS TO COMMUNITIES OF COLOR



Source: Institute on Taxation and Economic Policy Louisiana Budget Project | labudget.org

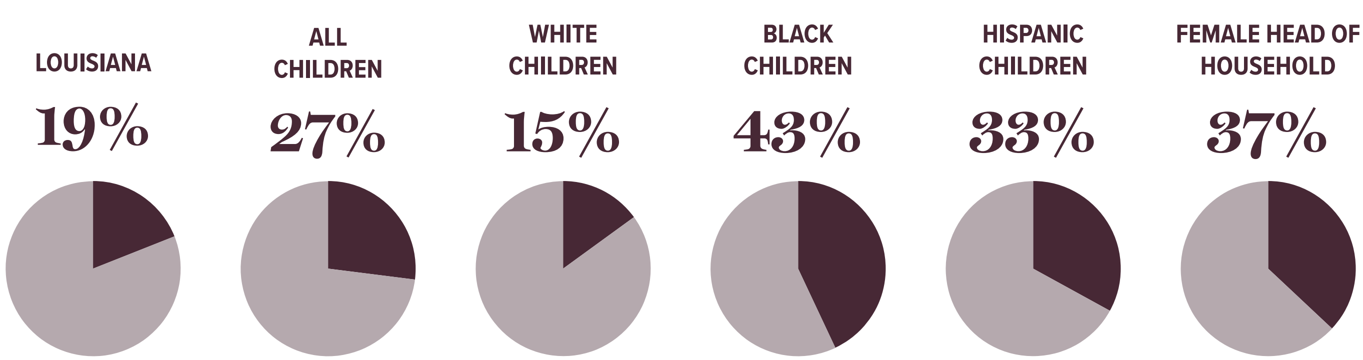
CHILD POVERTY IS A MORAL AND ECONOMIC CRISIS IN LOUISIANA

The Annie E. Casey Foundation ranks Louisiana 50th for children's economic well-being.[13] Nearly 1 in 4 Louisiana families with children - 23% - currently live below the federal poverty line.[14] But those numbers actually understate the problem, as they don't account for the hundreds of thousands of families living just above the poverty line. Nor do they account for the disproportionate impact of poverty on rural communities and communities of color. More than 29% of Black Louisianans live in poverty and over 43% of Black children live in poverty compared to 15% of White children. In rural East Carroll Parish, 66% of children live below the poverty line.[15]

The average cost of raising a child from birth to age 17 in the South - not including the cost of college - is between $193,020 and $232,050.[16] In other words, hundreds of thousands of Louisiana children live in households that don't have the resources to provide for their basic needs, many of whom are held back by structural and economic barriers due to their race and income.

Poverty comes with long-term costs for children, and the overall economy. The National Academies of Sciences, Engineering and Medicine calculated that child poverty costs the United States between $800 million and $1.1 trillion each year. But the same report found that child poverty could be cut in half through an annual federal investment of $90 billion to $108 billion.[17]

POVERTY IS MOST COMMON IN FEMALE-LED HOUSEHOLDS OF COLOR



Source: U.S. Census Bureau, American Community Survey, 2019, Chart S1703 & B17001B, B17001H, B17001I Louisiana Budget Project | labudget.org

Louisiana's unacceptable rates of child poverty prevent hundreds of thousands of children from reaching their full potential. According to the National Academies, poverty affects children in two ways: (1) it results in material hardship, which can inhibit a child's ability to thrive; and (2) it can cause "toxic stress" for parents that make it hard for them to meet their childrens' emotional needs. People who experience poverty in early childhood completed an average two fewer years of education, worked 451 fewer hours per year and earned less than half as much income in adulthood than people who grew up in families above 200% of the poverty line. Health outcomes - mental and physical - were also considerably worse for children in poverty compared to those raised in the middle class or above.[18]

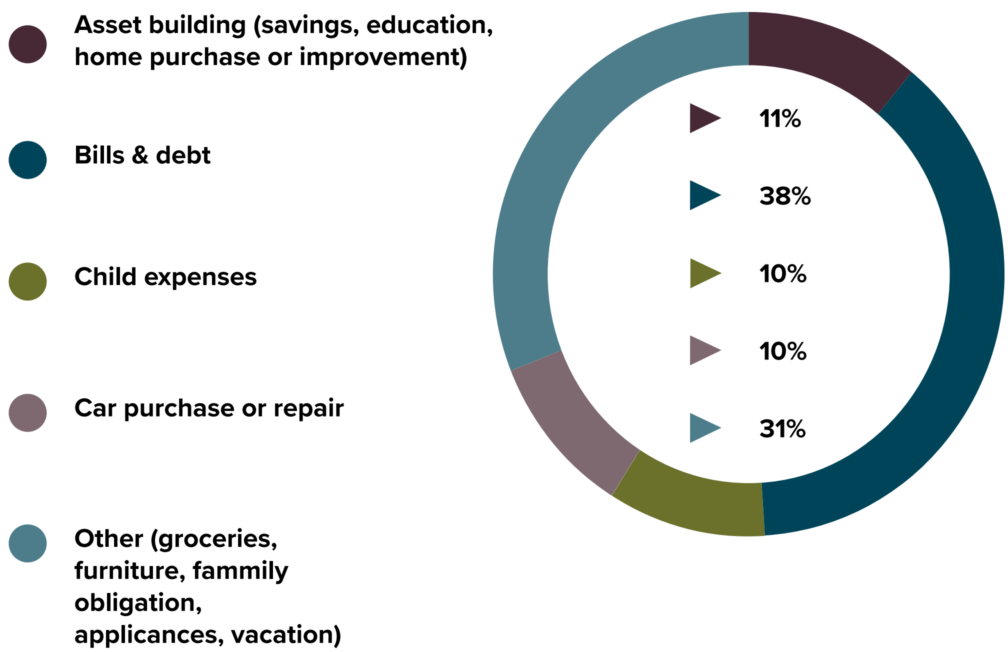
Tax credits for working families can have a lasting positive effect on children from low-income families. Children whose families receive an income boost through the CTC do better in school, are more likely to attend college and earn more as adults than similar children who don't benefit from the credit.[19]

Working with existing state and federal tax credits, the Strong Families Tax Credit will help families with low and moderate wages make ends meet in the short term. The income boost helps parents keep the lights on, put more nutritious food on the table and get their car fixed so they can keep going to work. This has lasting effects on their children and can help break the cycle of intergenerational poverty.

TAX CREDITS AND THE ECONOMY

When low-income families have more money to spend, local economies benefit. Families that receive the Strong Families Tax Credit will use it to buy local goods and services, which helps retailers, landlords, grocers and other vendors, which in turn supports local jobs. A 2012 study found that people claiming the EITC spent the vast majority of their refunds on asset building, paying down bills and debt, child expenses and car-related purchases.[21] It's likely that the same would hold true for a child tax credit.

EITC RECIPIENTS SPENT THE MAJORITY OF THEIR TAX RETURNS ON BILLS, CHILD EXPENSES AND ASSET BUILDING



Source: Mendenhall, R., Edin, K., Crowley, S., Sykes, J., Tach, L., Kriz, K., & Kling, J (2012).

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A CHILD TAX CREDIT PROMOTES TAX FAIRNESS

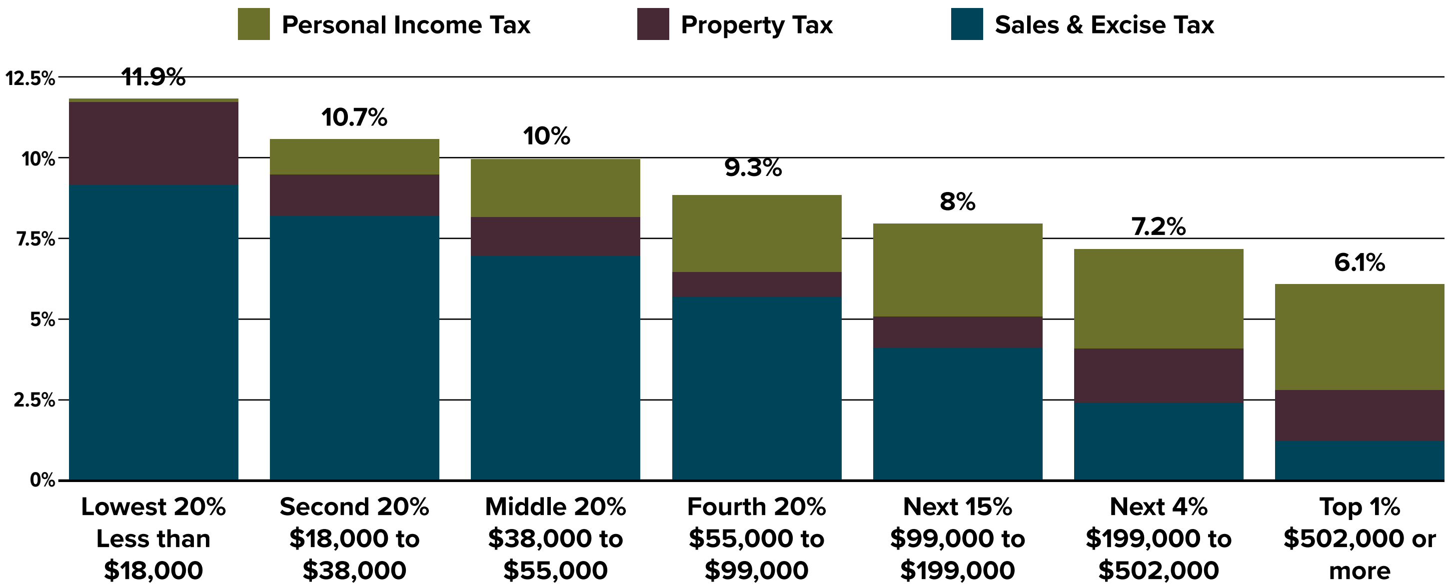
Louisiana has long used tax credits, exemptions and other incentives to support favored industries. Manufacturing industries, for example, benefit from the most generous property tax forgiveness program in the country, while the entertainment industry collects $180 million a year to shoot movies and TV shows in the state. Some of these programs persist for generations despite research showing they have poor returns on the state's investment.

The Louisiana Department of Revenue calculates that Louisiana will give away $914 million in "Business Environment" tax breaks in 2021 - nearly $180 million more than was exempted in 2017.[20]

These tax breaks are one reason why low-income Louisiana households pay a significantly higher state and local tax rate than the highest earners in our state when taxes are measured as a percentage of total income. When wealthy corporations and people are allowed to skip out on paying taxes, the obligation to pay for the services we all use is shifted to everyone else.

Tax credits for working families, by contrast, are proven long-term investments in the people who will drive Louisiana's economy in the future.

THE POOREST LOUISIANANS PAY DOUBLE THE EFFECTIVE TAX RATE AS WEALTHY LOUISIANANS



Source: Institute on Taxation and Economic Policy

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A Strong Families Tax Credit won't be enough to lift every Louisiana child above the poverty line. It won't eliminate the racial barriers that have held back generations of Louisianans from reaching their full potential. But it would be a critical step toward providing families with badly-needed resources necessary for kids to thrive. If Louisiana policymakers are serious about building a resilient economy that works for everyone, it starts with making new investments in the state's most valuable resource: its children.

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Data on the Strong Families Tax Credit was provided by the Institute on Taxation and Economic Policy. All Census data is from the 2019 American Community Survey.

Households: Data referring to Households impacted regarding the Strong Families Tax Credit is used in a colloquial context to describe discrete economic units, as opposed to referring to household data from the U.S. Census Bureau.

Louisiana Needs a Strong Family Tax Credit was researched and written by Neva Butkus. Editing by Stacey Roussel and Jan Moller. Layout and design by Jamie Carson.

The Louisiana Budget Project (LBP) monitors and reports on public policy and how it affects Louisiana's low- to moderate-income families. We believe that the lives of Louisianans can be improved through profound change in public policy, brought about by: creating a deeper understanding of the state budget and budget-related issues, looking at the big picture of how the budget impacts citizens, encouraging citizens to be vocal about budget issues that are important to them and providing insight and leadership to drive the policy debate.

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