

Family Financial Stability and Child Outcomes: Leveraging Tax Policy for Improved Development



INSTITUTE *for* CHILD SUCCESS

Kelly O'Donnell, Ph.D.

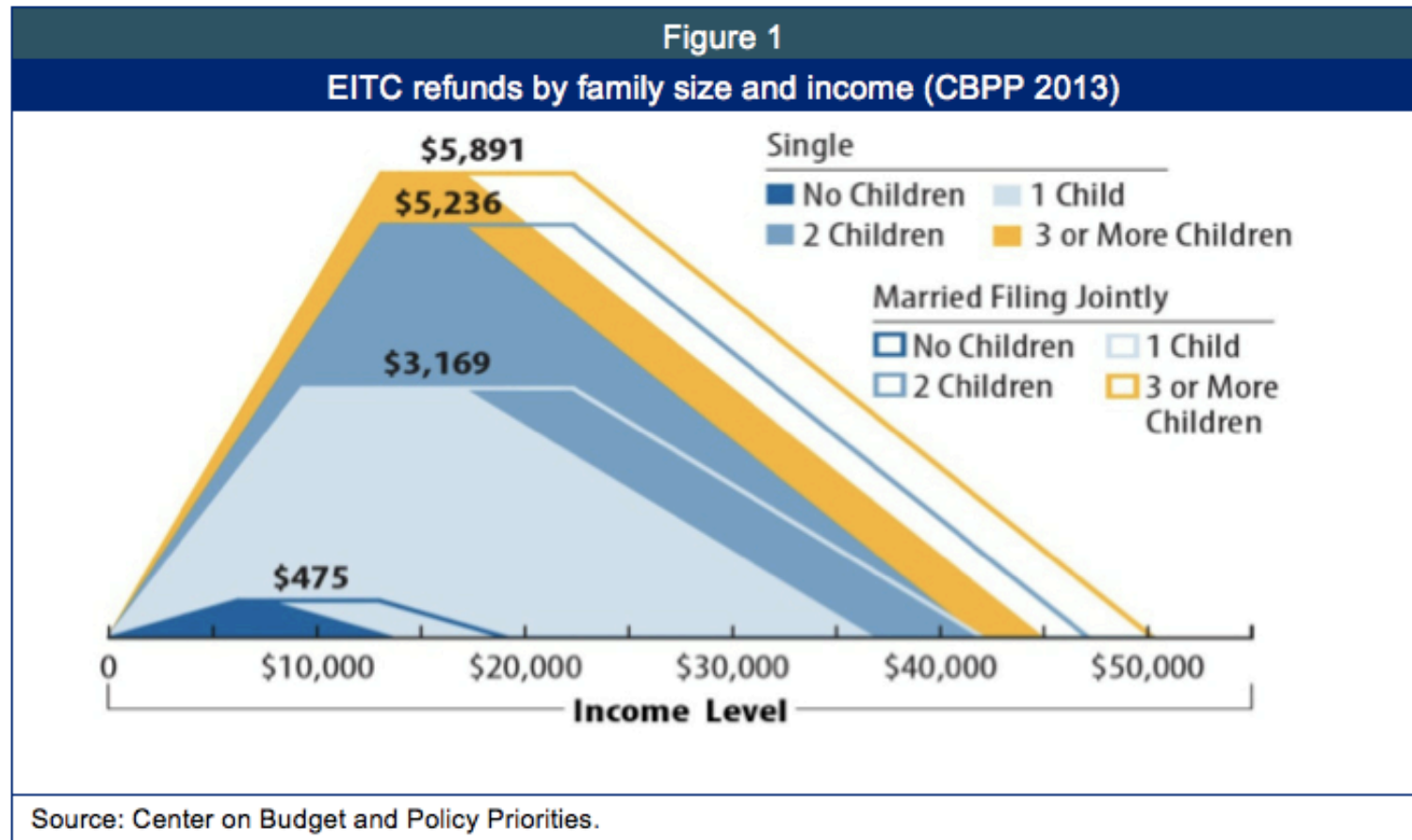
Keller Anne Ruble

Researchers have documented beneficial effects on poverty, on consumption, on health, and on children's academic outcomes. The magnitude of these effects is large: Millions of families are brought above the poverty line, and estimates of the effects on children indicate that this may have extremely important effects on the intergenerational transmission of poverty as well. ***Taking all of the evidence together, the EITC appears to benefit recipients — and especially their children — substantially.***

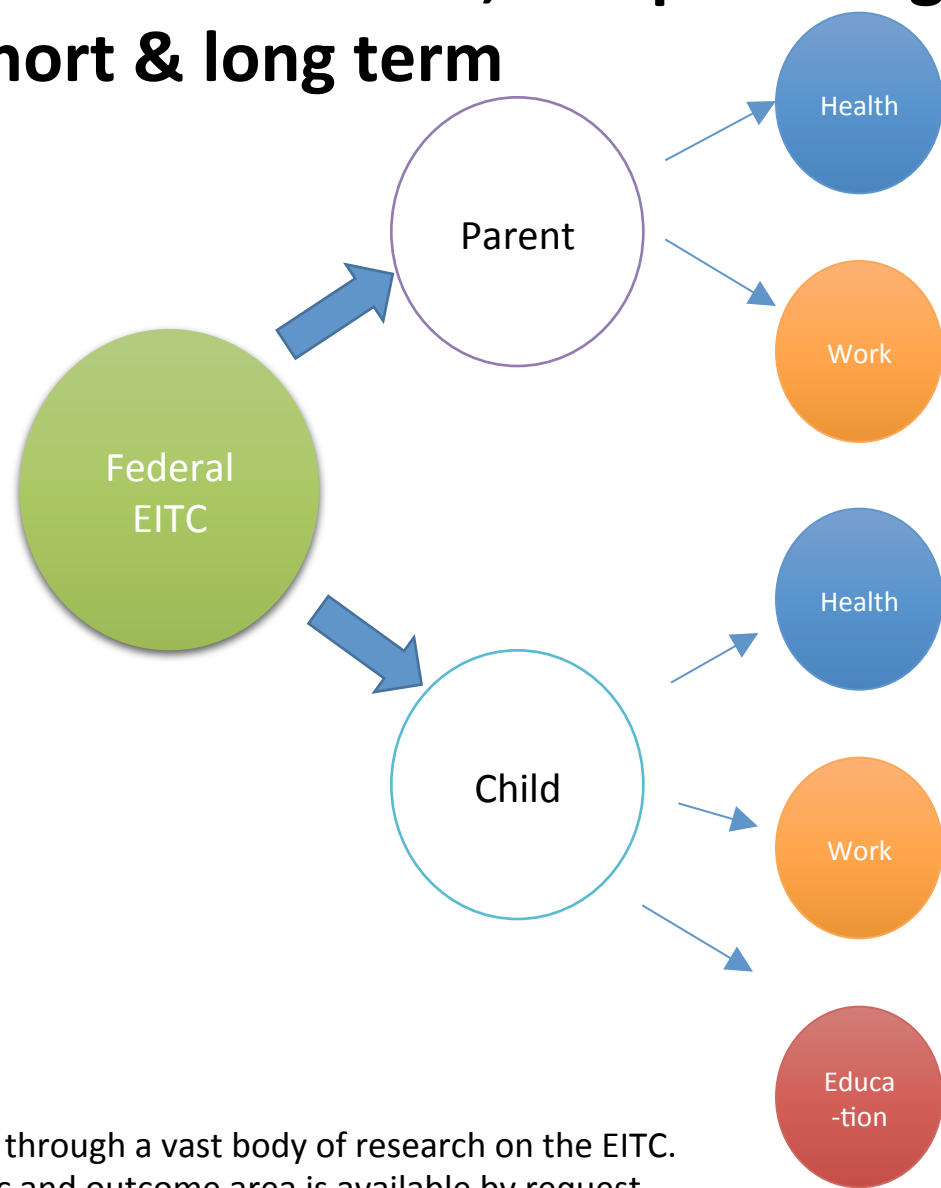
i(cs)

Nichols, A., & Rothstein, J. (2015). The earned income tax credit. In *Economics of Means-*
Tested

The Earned Income Tax Credit is the most effective anti-poverty, pro-work tool in our economic toolkit



Recipients of the EITC see broad, compounding benefits in the short & long term



- Better prenatal health and care
- Decreased maternal depression
- Lower rates of lasting, poverty related health
- Significant increase in employment & hours worked for single mothers
- Impact on future earnings, wage growth, access to retirement benefits.
- Lower child aggression, hunger rates
- Lower rates of lasting, poverty related health
- Increased potential for future earnings
- Better math and reading scores
- Increased probability of high school graduation
- Increases probability of college attendance and completion

Note: These outcomes are shown through a vast body of research on the EITC. A full citation list by research topic and outcome area is available by request.

Recent ICS Research Elucidates EITC's Benefit to Young Children

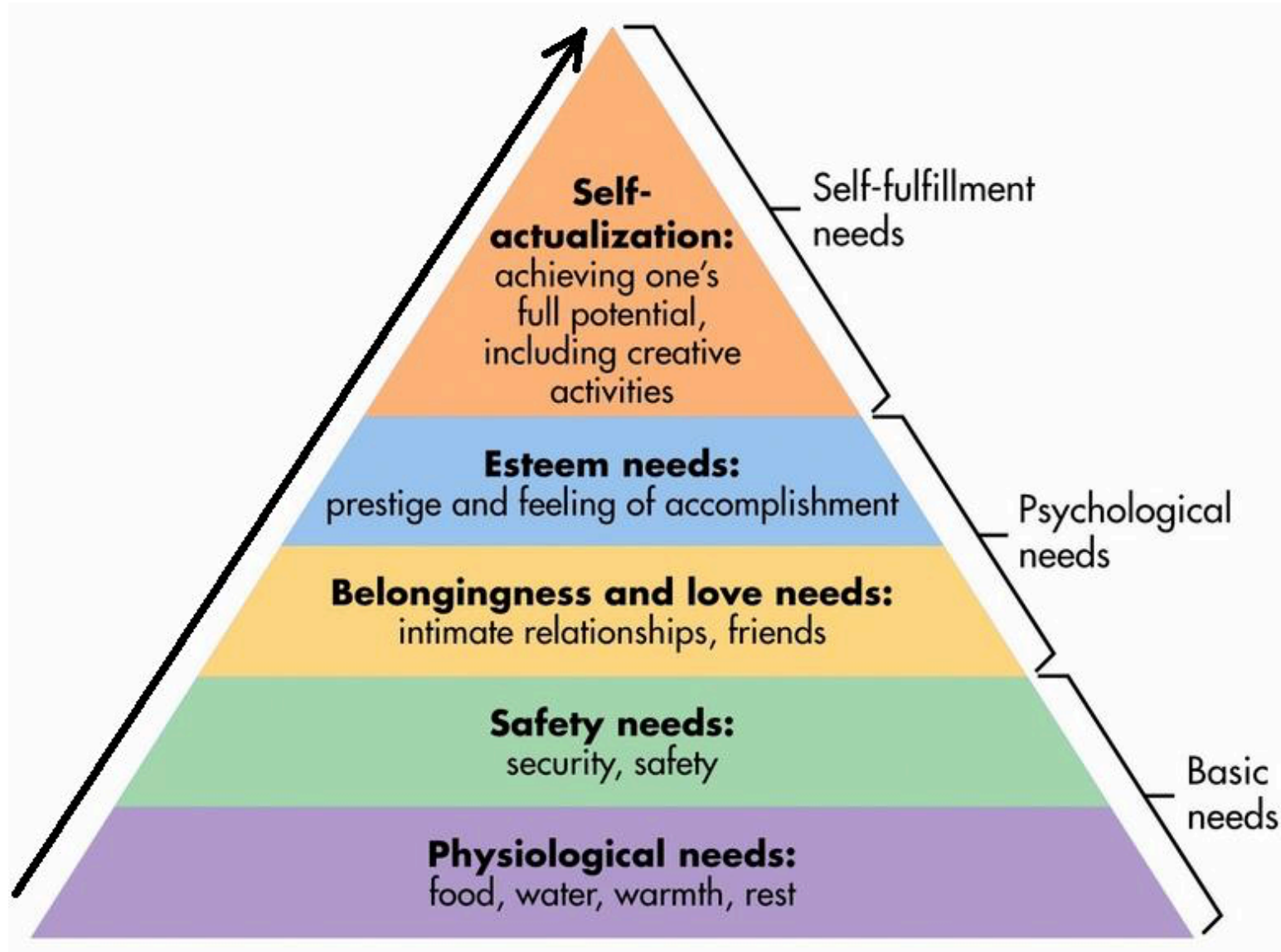
- *The Effect of the Earned Income Tax Credit on Child Achievement and Long-Term Educational Attainment*, Michelle Maxfield, Ph.D., September 2015
- Statistically Significant Findings
 - \$1000 increase in EITC increases:
 - Math achievement by about 0.072 nationally normed standard deviations (SD). For boys and children of color: 0.09 SD
 - High school graduation probability by 2.1%
 - Completion of one or more years of college by 1.4%
- Estimated effects are larger for boys and children of color, and there is evidence that an expansion in the EITC is more effective at improving educational outcomes for children who are younger during the expansion.

Financial Stability Has a Positive Impact on Child Development, Quality of Life



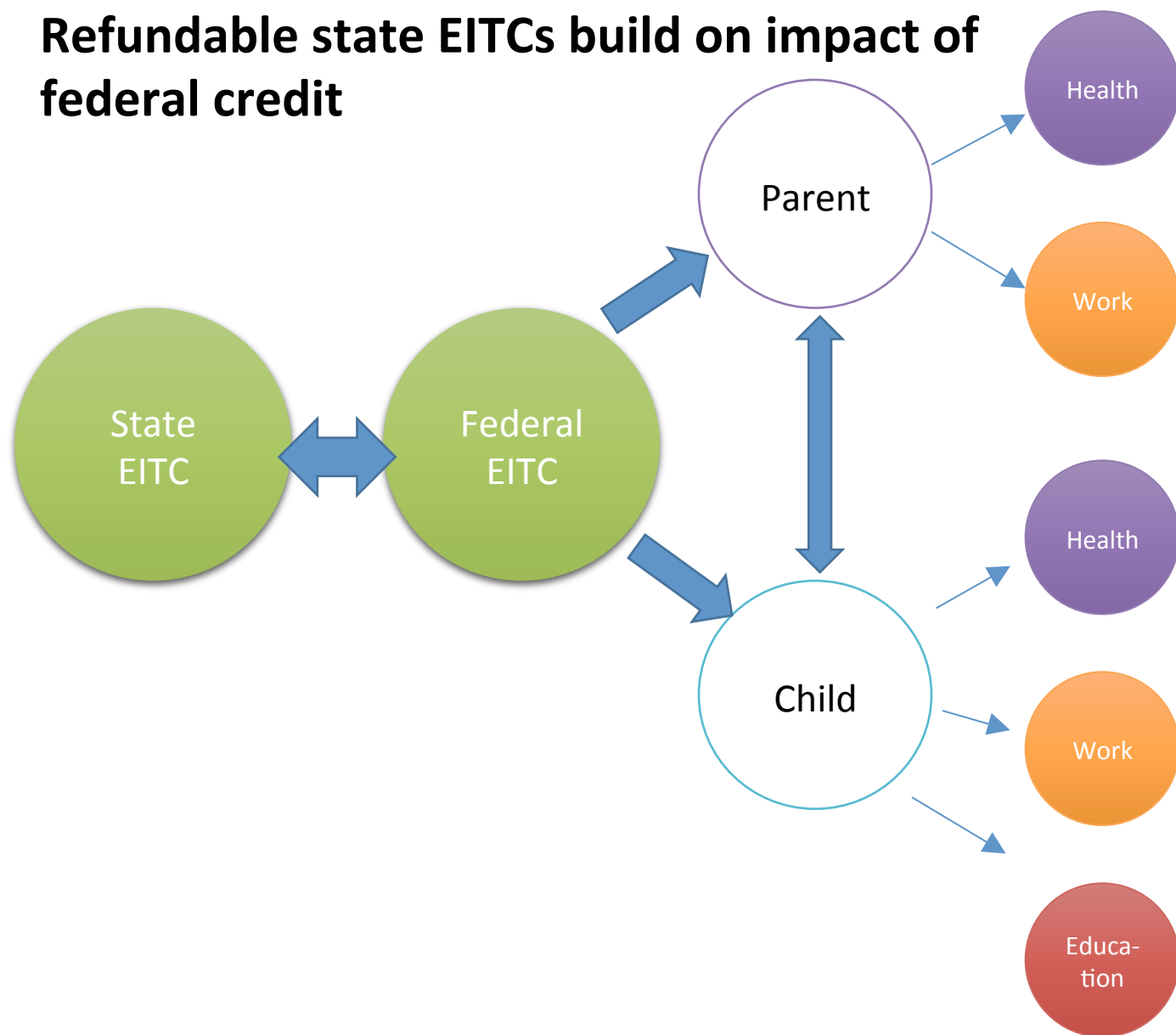
- Family income and cost burdens dictate housing choices, food security
- Young children growing up in concentrated poverty are at greater risk for Adverse Child Experiences, and early, unyielding levels of stress harm brain development and the formation of executive function skills. Interventions prevent long-lasting negative impacts
- The impact of scarcity and adversity on children exists within a two-generation context
- Research on how financial programs impact the well-being of young children is limited

i(cs)



Maslow's Hierarchy of Needs

Refundable state EITCs build on impact of federal credit



- Better prenatal health and care
- Decreased maternal depression
- Lower rates of lasting, poverty related health

- Significant increase in employment & hours worked for single mothers
- Impact on future earnings, wage growth, access to retirement benefits.

- Lower child aggression, hunger rates
- Lower rates of lasting, poverty related health

- Increased potential for future earnings

- Better math and reading scores
- Increased probability of high school graduation
- Increases probability of college attendance and completion

Economic Impact Analysis Project

2016

Early Childhood Common Agenda

Building a smart, comprehensive early childhood system through effective policy to create a brighter future for young children and their families.

i(cs)

INSTITUTE *for* CHILD SUCCESS



United Way Association
of South Carolina

i(cs)

INSTITUTE *for* CHILD SUCCESS

Economic Impact Analysis Highlights Local Benefits of State-Refundable EITC

| County | EITC demographics | | State EITC Amounts (all EITC returns) | | | Fiscal Impact Analysis | | |
|-----------------------|--------------------------|----------------------------|---------------------------------------|--------------|--------------|------------------------|---------------------|----------------------|
| | 2017 Average EITC Amount | EITC Returns with children | Levels of State Credit | | | Levels of State Credit | | |
| | | | 3.50% | 7% | 10% | 3.50% | 7% | 10% |
| Abbeville | \$3,019 | 2,462 | \$106 | \$211 | \$238 | \$279,569 | \$559,139 | \$798,769 |
| Allendale | \$3,178 | 1,222 | \$111 | \$222 | \$233 | \$144,166 | \$288,331 | \$411,902 |
| Bamberg | \$3,192 | 1,740 | \$112 | \$223 | \$242 | \$204,122 | \$408,244 | \$583,206 |
| Beaufort | \$2,801 | 11,051 | \$98 | \$196 | \$228 | \$1,234,347 | \$2,468,694 | \$3,526,706 |
| Charleston | \$2,635 | 25,438 | \$92 | \$184 | \$236 | \$2,890,660 | \$5,781,320 | \$8,259,028 |
| Greenville | \$2,732 | 33,260 | \$96 | \$191 | \$239 | \$3,709,073 | \$7,418,147 | \$10,597,352 |
| Horry | \$2,637 | 23,618 | \$92 | \$185 | \$243 | \$2,749,615 | \$5,499,229 | \$7,856,042 |
| Richland | \$2,805 | 33,916 | \$98 | \$196 | \$239 | \$3,797,374 | \$7,594,748 | \$10,849,641 |
| York | \$2,691 | 17,338 | \$94 | \$188 | \$236 | \$1,871,065 | \$3,742,129 | \$5,345,899 |
| SOUTH CAROLINA | \$2,835 | 406,158 | \$99 | \$198 | \$237 | \$45,941,478 | \$91,882,956 | \$131,261,365 |



Economic Impact Analysis Highlights Local Benefits of State-Refundable EITC

| County | Self sufficiency for 1 adult & 1 preschooler | | Federal EITC recipients | | State EITC amount returns w/ 1 child | |
|-----------------------|--|-----------------|-----------------------------------|---|--------------------------------------|--------------|
| | Wage | Income | Average income of EITC recipients | Average federal EITC - 1 child families | 3.5% | 7% |
| Abbeville | \$13.45 | \$28,406 | \$20,070 | \$2,377 | \$83 | \$166 |
| Allendale | \$14.53 | \$30,687 | \$17,727 | \$2,329 | \$81 | \$163 |
| Bamberg | \$14.93 | \$31,532 | \$18,778 | \$2,423 | \$85 | \$170 |
| Beaufort | \$18.43 | \$38,924 | \$18,305 | \$2,276 | \$80 | \$159 |
| Charleston | \$18.27 | \$38,586 | \$16,765 | \$2,364 | \$83 | \$165 |
| Greenville | \$15.67 | \$33,095 | \$19,068 | \$2,387 | \$84 | \$167 |
| Horry | \$16.51 | \$34,869 | \$16,588 | \$2,428 | \$85 | \$170 |
| Richland | \$16.87 | \$35,629 | \$18,881 | \$2,387 | \$84 | \$167 |
| York | \$17.41 | \$36,770 | \$19,859 | \$2,356 | \$82 | \$165 |
| SOUTH CAROLINA | \$15.75 | \$33,262 | \$18,731 | \$2,375 | \$83 | \$166 |



Contextualizing the Benefit: How EITC Refunds are Used

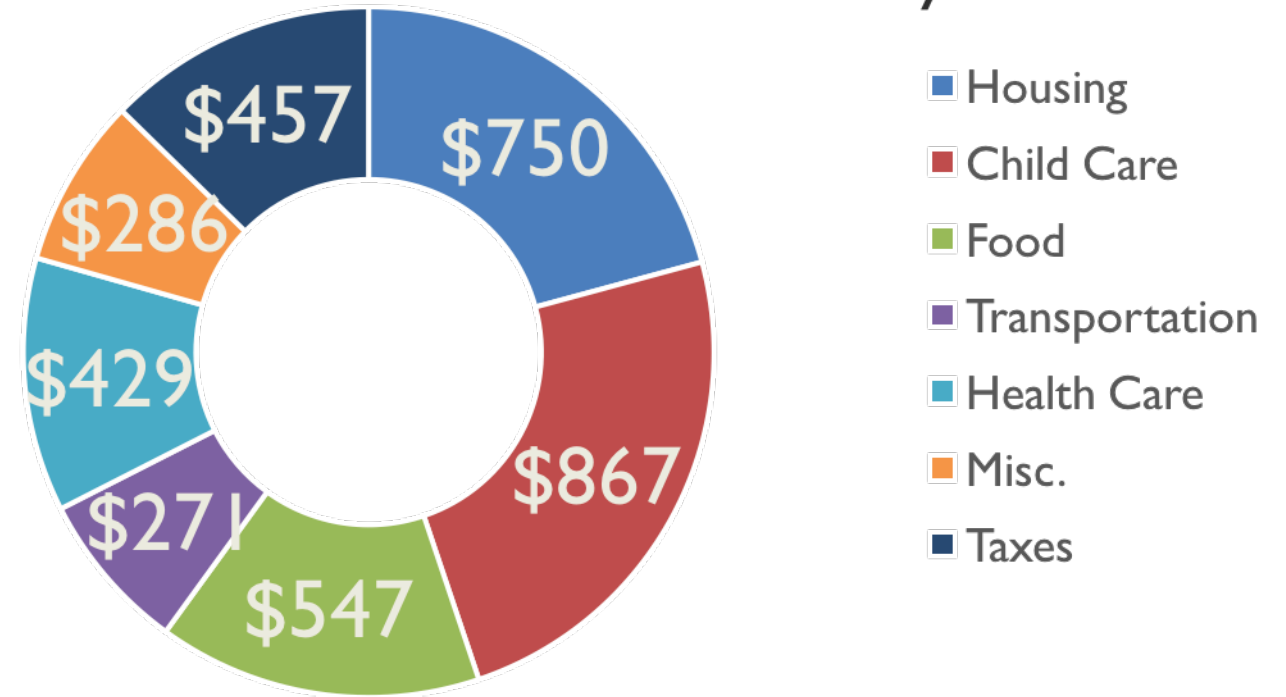
Minimum Wage in SC: **\$7.25/hr**
Annual income: **\$15,080**

For a low-income, working family, a \$199 State EITC benefit could mean:

- 30 hours of take-home pay for a minimum wage worker
- school clothes + supplies for 1 kid
- 2 weeks worth of groceries
- car repair



Average Monthly Costs
1 Adult, 1 Preschooler, 1 School Age Child
Greenville County

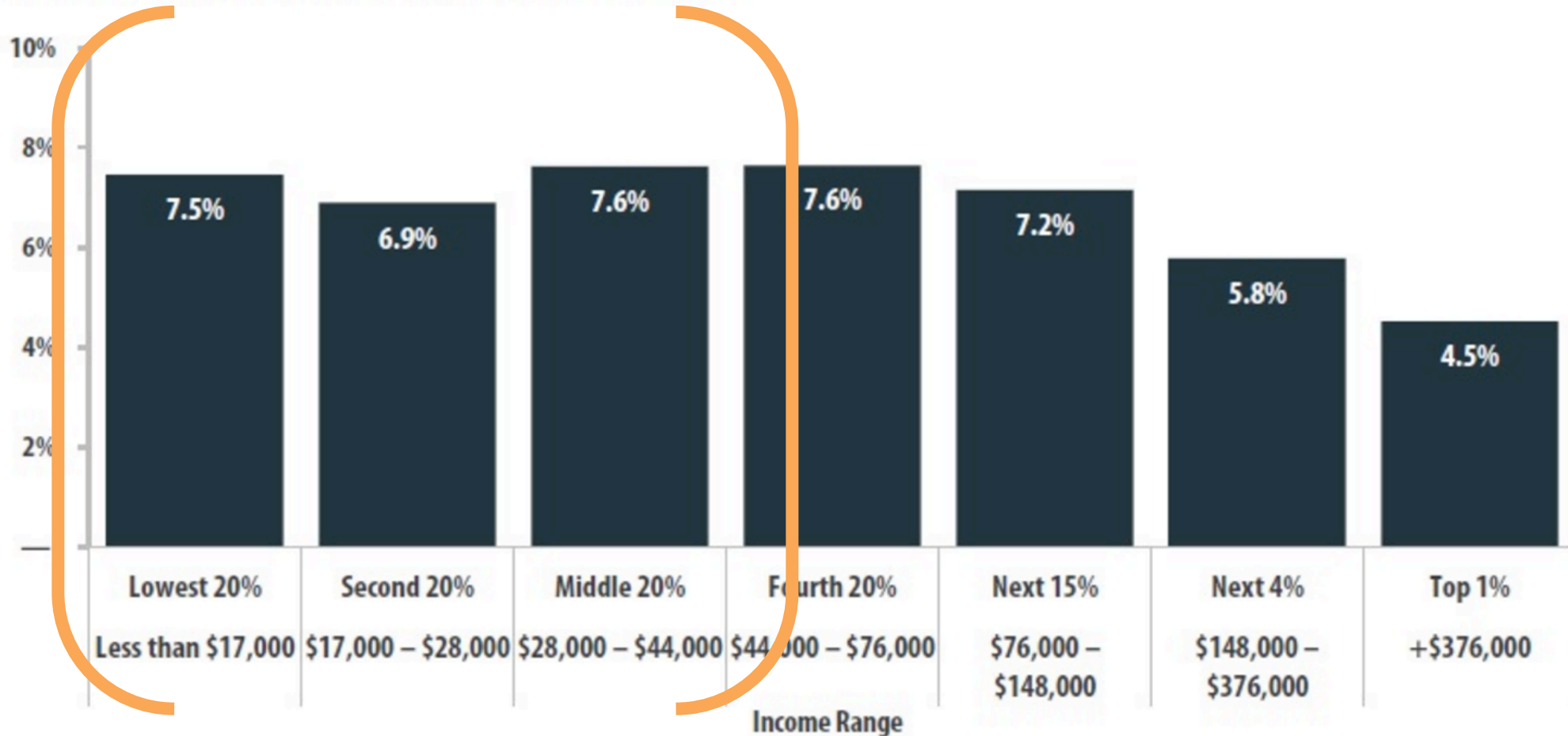


Total: \$3,607

Data are from The United Way Association of South Carolina's *The Self Sufficiency Standard for South Carolina, 2016* **i(cs)** INSTITUTE for CHILD SUCCESS

Low-income, working families in South Carolina pay higher proportions of income in taxes than those above poverty line

Shares of family income for non-elderly taxpayers



Source: Institute on Taxation and Economic Policy, *Who Pays?* (2016)

A Refundable State EITC would reduce the tax burden for many families

| County | EITC demographics | | Tax Burden Analysis | | | |
|-----------------------|--------------------------|----------------------------|---|--|----------------|----------------|
| | 2017 Average EITC Amount | EITC Returns with children | Total state and local tax burden of EITC recipients | Net state and local burden with state EITC | | |
| | | | | 3.50% | 7% | 10% |
| Abbeville | \$3,019 | 2,462 | \$1,352 | \$1,246 | \$1,141 | \$1,050 |
| Allendale | \$3,178 | 1,222 | \$1,241 | \$1,129 | \$1,018 | \$923 |
| Bamberg | \$3,192 | 1,740 | \$1,277 | \$1,165 | \$1,053 | \$958 |
| Beaufort | \$2,801 | 11,051 | \$1,367 | \$1,269 | \$1,171 | \$1,087 |
| Charleston | \$2,635 | 25,438 | \$1,236 | \$1,144 | \$1,052 | \$973 |
| Greenville | \$2,732 | 33,260 | \$1,322 | \$1,227 | \$1,131 | \$1,049 |
| Horry | \$2,637 | 23,618 | \$1,210 | \$1,117 | \$1,025 | \$946 |
| Richland | \$2,805 | 33,916 | \$1,431 | \$1,333 | \$1,235 | \$1,151 |
| York | \$2,691 | 17,338 | \$1,475 | \$1,381 | \$1,286 | \$1,206 |
| SOUTH CAROLINA | \$2,835 | 406,158 | \$1,413 | \$1,314 | \$1,215 | \$1,130 |



Maximizing the EITC for optimal returns on investment

- Smart Tax Preparation
 - Error Rates
 - VITA services
 - Predatory Services & Unregulated Preparers
- Other County Economic Indicators
 - Kids Count Data Base
 - United Way Association - *The Self Sufficiency Standard for South Carolina, 2016*



Recap:

- EITC is good for kids and families
- THE single most efficient and effective way of increasing household income
- Successful program, but not perfect. Success need to be built upon



What's next?

- Big Questions:
 - Forthcoming Paper
 - Tax & Fiscal Policy Initiative
 - Legislative traction
 - Budgetary priorities
- Research Opportunity to Measure Policy Change
 - Policy implementation lends itself well for statistically significant, causal links
 - What would it take to measure?



Questions?



Thank You!

Further Questions:

Kelly O'Donnell

kelly@odonnelleconomics.com

Keller Anne Ruble

kruble@instituteforchildsuccess.org

i(cs)