HEALTHY FAMILIES TAX CREDITS COALITION

October 11, 2024

The Honorable Sal DiDomenico
Chair, Special Commission on Poverty
State House, Room 405
Boston, MA 02133

The Honorable Marjorie Decker
Chair, Special Commission on Poverty
State House, Room 130
Boston, MA 02133

Dear Chair DiDomenico, Chair Decker, and distinguished members of the Commission on Poverty,

Thank you for the opportunity to submit testimony to identify and advance policies that reduce poverty and expand opportunity for families with low incomes. On behalf of the Healthy Families Tax Credits Coalition – a statewide network of more than 80 community organizations, institutions, and direct service providers – we urge the Commission to include in its report recommendations to strengthen and increase access to the state Earned Income Tax Credit (EITC) and Child and Family Tax Credit (CFTC). Specifically, we encourage the Commission to support the following expansions that center the needs of families with low incomes and respond to financial realities they face across the Commonwealth:

1. Extend eligibility for the EITC to immigrant and mixed-status families who file taxes using an Individual Taxpayer Identification Number (ITIN);
2. Increase the EITC match from 40% to 50% of the federal credit;
3. Remove the dependent cap in the EITC;
4. Increase the CFTC to at least $600 per dependent;
5. Index the CFTC to inflation, thereby protecting its value over time;
6. Extend eligibility for the CFTC to all children under age 18;
7. Create the option for disbursing the CFTC in advance, periodic payments;
8. Improve access to the EITC and CFTC through a robust outreach and communications campaign and sustained funding for the Volunteer Income Tax Assistance (VITA) program.

Refundable Family Tax Credits Reduce Poverty and Support Equitable and Inclusive Economies

Currently in the United States, 64% of the population lives paycheck to paycheck and 11.1% lives below the poverty line.[1,2] Without adequate cash, families are unable to afford the stability that children need to thrive. However, programs and policies that provide families with unrestricted cash – including refundable tax credits – have demonstrated a large-scale policy opportunity to reduce poverty, advance equity, and improve health and stability for families and children.

The EITC and Child Tax Credit are two evidence-based policies for reducing poverty and advancing equity. In 2023, the federal credits together lifted 3.4 million children out of poverty.[3] State-level refundable EITCs and Child Tax Credits build on the success of these federal programs, further bolstering income and helping families afford necessities – in turn improving financial stability and family health and well-being.[4]

In response to financial uncertainty due to the COVID-19 pandemic, the federal government temporarily expanded the federal Child Tax Credit, providing families with up to $300 each month for each dependent child. Available to families with the lowest incomes, the temporary expansion is credited with having the profound impact of cutting child poverty in half and decreasing food insufficiency by 26%.[5,6] The greatest reductions in poverty and hardship were among Black, Latino, and American Indian and Alaska Native children.[7] When the temporary expansion expired and families stopped receiving the payments, poverty spiked and hardship rebounded.[8] New research shows that had an expanded Child Tax Credit been in effect in 2023, the child poverty rate of 13.7% could have instead been 8.6%.[9]

The success of the temporarily expanded federal Child Tax Credit has fueled state policymakers to improve or create new state-level Child Tax Credits and EITCs.[7,10] Since 2022, twelve states plus the District of Columbia have expanded or established new Child Tax Credits.[11] Credits are now larger and more inclusive, with five states offering refundable credits at or above $1,000 per qualifying child.[10] Since 2022, seventeen states plus the District of Columbia have expanded or established new EITCs.[17] Recent EITC expansions include increasing the match rate and eligibility for the credit to federally excluded populations (e.g. immigrant and mixed status families, younger and older workers without dependent children).

Massachusetts lawmakers have long recognized the power of state refundable tax credits. In 1997, the state enacted an EITC matching 10% of the federal credit. Since then, the credit has increased four times, ultimately reaching 40% of the federal credit. In 2021, the Legislature converted two dependent deductions into refundable credits available to families of all incomes. Lawmakers built on this success when it streamlined and boosted these credits into a single CFTC in 2023. These credits reach separate but overlapping populations, and combined deliver millions of state dollars back to families to spend in their local economies. However, further expansions are needed to improve tax equity and ensure that all families – especially those with the lowest incomes – can benefit.

Strengthening the Earned Income Tax Credit

Extend eligibility for the EITC to immigrant and mixed-status families who file taxes using an Individual Taxpayer Identification Number (ITIN).

The EITC boosts the income of working families, but currently leaves out many low-wage workers and their families. Immigrant or mixed-status families who live, work, and pay taxes in Massachusetts cannot receive the EITC if any member of the household is ineligible for a SSN. This leaves out more than 76,000 individuals in 26,000 households otherwise eligible for the credit.[12] In addition to deepening inequities among immigrants, U.S. citizens living in mixed-immigration status households cannot benefit from the EITC, punishing U.S. citizen children whose parents file returns with ITINs. In Massachusetts, two-thirds of the excluded families, totaling between 14,200 and 17,300 households, are mixed-status. Many of these households include U.S. citizen children.[12] If one spouse has a SSN and the other an ITIN, neither they nor their children will get the credit.

The Internal Revenue Service (IRS) issues ITINs to certain immigrants who are not eligible for a SSN but must comply with U.S. tax laws. ITIN holders are a large and vital part of Massachusetts' workforce, performing crucial roles for many industries essential to our economy. These include health care, construction, service, and farming. ITIN workers are often undocumented, a status that would prevent them from obtaining a SSN. The Pew Research Center estimates that 5.5% of the Massachusetts workforce are undocumented immigrants.[13] Despite being taxed in the same way as a taxpayer with a SSN, ITIN filers and their families are not eligible for many of the tax benefits that U.S. citizens can receive, including the EITC.

The exclusion of ITIN workers deepens racial inequities. In 2021, the Health Equity Task Force, created by Chapter 93 of the Acts of 2020, submitted its final report to the Massachusetts Legislature, A Blueprint for Health Equity.[14] Within the report's summary of Immediate and Intermediate Action, section 4.2.3 supports extending the state EITC to ITIN filers. The report states, "**Every one of these filers paid their share of state and federal income tax… The state EITC should be available to all families who pay taxes."**

While the federal EITC unfairly excludes workers who file taxes using an ITIN, ten states and the District of Columbia have corrected this inequity in their tax code by extending their state credit to ITIN filers. These include California, Colorado, Illinois, Maryland, Maine, Minnesota, New Mexico, Oregon, Vermont, Washington, and Washington DC. This represents approximately one-third of states with local EITCs. Ensuring that the EITC supports all income-eligible workers is critical to reduce poverty and inequities, and support the financial stability of our families and low-income workers

Increase the EITC match from 40% to 50% of the federal credit.

Raising the Massachusetts EITC match rate would increase financial resources for working families with low incomes, improving economic stability and children's health. Research shows that a $1,000 credit reduces incidence of low birth weight and increases birth weight.[15] Similarly, pilots across the country – including the Cambridge RISE pilot in Massachusetts – have shown that when families receive a much needed cash boost, their health and financial stability improves.[16] A 50% match would deliver an average benefit of $1,087 to Massachusetts families.[17]

The recent increase to the Massachusetts EITC is an important step to address poverty and income gaps in the state. However, it continues to fall behind several others including Colorado (50%), California (85%), District of Columbia (70% and 100% for workers without dependents), Maine (50% for workers without dependents), and Maryland (45% and 100% for workers without dependents).

Remove the dependent cap in the EITC.

Currently, the value of the EITC increases with family size, but only up to three children. Holding all else equal, a family with three children will receive the same credit as a family with four children. This unfairly penalizes larger families. For all households eligible for the EITC, the match should increase by 5 percentage points for each child above three children. This would mean a 5% increase for a household with four children, a 10% increase for a household with five children, and so on.

Strengthening the Child and Family Tax Credit

Increase the CFTC to at least $600 per dependent.

Passed in 2023, the Massachusetts CFTC provides families with $440 for each eligible dependent. Notably, families do not need earned income to qualify, are able to claim the credit using an ITIN, and do not limit the number of dependents claimed. This allows the CFTC to meaningfully support and reach families currently excluded from the EITC. Further increasing the credit to at least $600, as proposed by Governor Healey and passed by the House in 2023 (ultimately reduced to current level in conference committee), would provide additional support to families with the lowest incomes.

Index the CFTC to inflation, thereby protecting its value over time.

Indexation is essential to prevent erosion of the CFTC over time. Increases in inflation over the last several years underscore the need to index tax credits and other benefits to inflation. Since 2018, the federal Child Tax Credit has lost 15 percent of its real value to inflation.[18] This is particularly important to protect families with low incomes, who spend an outsize proportion of their budget on necessities like groceries and utilities.

Extend eligibility for the CFTC to all children under age 18.

The CFTC is a meaningful cash support for families with children under 13, disabled dependents, and seniors. However, it excludes families with teenagers. Extending credit eligibility to include children of all ages would strengthen this credit and its intent: to provide financial relief to families with dependents in the Commonwealth. Extending age eligibility would recognize that costs of raising children do not stop when they become teenagers. In fact, family expenses can often increase as a child ages. For example, teenagers require more food to fuel their quickly growing bodies.

Create the option for disbursing the CFTC in advance, periodic payments.

The temporarily expanded federal Child Tax Credit was successful, in part, because a portion of the credit was offered in advance monthly payments. This allowed families to incorporate support into monthly budgets and better afford basic needs. The tax package passed in Massachusetts in 2023 directed the Executive Office of Administration & Finance to conduct a feasibility study of implementing advance quarterly payments. We encourage the Commission to explore this report and consider advance, periodic payments of the CFTC that provides families the option of participation and information on how it may affect eligibility for other programs.

<u>Improving Access to Refundable Tax Credits</u>

The benefits of the EITC and CFTC can only be fully felt when accessible. The uptake of EITC in Massachusetts is 82%. For families without tax filing obligations ("non-filers"), uptake is likely lower. It is essential that the state invest in outreach to ensure that families are connected to these tax benefits.

The Volunteer Income Tax Assistance (VITA) program offers free tax help to people with low incomes, persons with disabilities, seniors, and limited English-speaking taxpayers who need assistance in preparing their own tax returns. Often located at community-based organization, IRS-certified volunteers provide free basic income tax return preparation with electronic filing to qualified individuals. VITA sites also offer financial education and connect families with low incomes to other critical services, strengthening families and the local economy. VITA sites are a low-cost and high return activity offering an up to 60 to 1 return on investment. In a typical year, over 30,000 individuals are served by the 80 existing VITA sites across Massachusetts, and the services that sites provide results in $60 million in tax credits for taxpayers.

Since 2019, the state has invested in VITA, providing additional support alongside federal funds. Unfortunately, the line item was cut significantly in the fiscal year 2025 budget – from $1.5 million to $820,000. This cut will affect the capacity of VITA sites, resulting in fewer staff and limited hours. The reduction in VITA funding will likely also result in a reduction in tax filing among low to moderate-income taxpayers, or force people to pay for costly, often predatory, for-profit tax services, reducing cash-in-hand form refunds or credits received.

Focusing on implementation of anti-poverty programs is essential. In tax year 2024, Massachusetts families will be eligible for a maximum combined refund of nearly $11,000 in federal and state EITC alone. To ensure the widest dissemination of state and federal tax credits, the state must fully fund VITA and invest in a robust outreach campaign. This may include requiring employers to share information about tax credits, collaborating with community-based organizations to disseminate information, and working with state agencies to disseminate information to families.

We thank the Commission on Poverty for the opportunity to submit these comments, and encourage you build upon the work already done in Massachusetts and include in your report the above expansions to strengthen the EITC and CFTC and reduce poverty in the Commonwealth.

Sincerely,

The Healthy Families Tax Credits Coalition

The [Healthy Families Tax Credits Coalition](#) advocates for the expansion of the state Earned Income Tax Credit and Child and Family Tax Credit as tools to promote equity, boost family income, and improve the health and well-being of Massachusetts children and families. The growing coalition is led by Children's HealthWatch at Boston Medical Center and consists of more than 80 community-based agencies, legal advocates, researchers, professional associations, social service providers, tax preparers, health providers, and Massachusetts workers and their families. Our campaign centers the needs of families with low incomes and responds to the financial realities they face across the Commonwealth.

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