MN HOUSE RESEARCH

# Memorandum

**May 3, 2023**

**To** Representative Aisha Gomez

**From** Sean Williams

**Subject** Analysis of different approaches to establishing a Minnesota child credit

At your request, I reached out to the Institute on Taxation and Economic Policy (ITEP) to provide an analysis of the child poverty reduction resulting from the Child and Working Family Credit proposal in the House omnibus tax bill. ITEP staff worked with the Columbia Center on Poverty on Social Policy to estimate the poverty reduction under the House and Senate omnibus tax bills.

The enclosed memo from the Columbia Center on Poverty and Social Poverty describes the poverty reduction under the House and Senate omnibus tax bill child credit proposals.

Please let me know if you have additional questions or would like to request additional information.

# Antipoverty effects of Minnesota Child Tax Credit proposals

Policy Simulation
May 2, 2023

To: Minnesota House Research, Analyst for Income Tax and Property Tax Refunds

In response to a request from Minnesota House Research, this memo presents estimates of the antipoverty effects associated with two proposals (one originating in the Minnesota Assembly and one originating in the Senate) for a state-level child tax credit in Minnesota according to the parameters described below. An earlier memo presented the results of an antipoverty analysis of a previous version of the Assembly proposal on its own.

**Assembly proposal**

1. The maximum child credit would be $1,275 per child under age 18.
2. The combined child and earned income credit would be phased down by 9% of earned income starting at: $28,000 of income heads of household filers and $35,000 for joint filers.
3. Children with Individual Tax Identification Numbers (ITIN) would be eligible for the credit.
4. The existing Minnesota EITC would be eliminated, but filers would also qualify for an earned income credit of up to $500, which would equal 4% of the first $12,500 of earned income.

**Senate proposal**

1. $620 credit per child under age 18 or adult dependent, for a maximum of $1,860 (capped at 3 children or adult dependents).
2. The credit would be phased down by $62 for each $1,000 of income in excess of $50,000 for married joint returns, $33,300 for unmarried individuals, and $25,000 for married separate returns.
3. The credit would be *additional to* the existing Minnesota EITC.

Table 1 presents the predicted antipoverty effects of the two proposals.

**Table 1. Predicted anti-poverty impacts associated with Minnesota child tax credit proposals**

| | Assembly Proposal | Senate Proposal |
|---|---|---|
| Pre-reform child poverty rate | 6.9% | 6.9% |
| Child poverty rate with proposed credit | 5.3% | 5.9% |
| Percentage point change | 1.8 p.p. | 1.0 p.p. |
| Percent difference | 26.2% | 14.4% |

**Source:** Center on Poverty and Social Policy at Columbia University. See methods section for additional details.
**Note:** Due to rounding, some results may not correspond with the separate figures.

We caution that the Minnesota sample size in our dataset (which combines three years of Current Population Survey Data) is small, as is the sample size of Minnesota residents and children in poverty (498 and 139, respectively). Given this, our estimates should be interpreted with caution and are less precise than they would be with a larger sample.

**Methods**
Data for the antipoverty simulation are pooled from 3 years of the Current Population Survey (2017 – 2019). To adjust for change in economic conditions, inflation, and benefit level between these years and 2022, we adjust this underlying data using the method outlined in Collyer et al. (2022). The sample is limited to respondents from Minnesota. The analysis compares household resources and poverty rates, measured using the Supplemental Poverty Measure, before and after including income associated with the proposed state credit.

**Citation**
If citing these results, please note: Results produced by Center on Poverty and Social Policy at Columbia University at the request of Minnesota House Research.