Voices for Vermont's Children

Testimony on EITC and Child & Dependent Care Credit Federal Link-Up Issues
House Committee on Ways and Means | April 28, 2021

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Thank you for the invitation to testify today. One of Voices for Vermont's Children's policy priorities is the improvement of child, youth and family economic security, and tax transfers can play an important role in achieving this goal. The relief funds flowing from the federal recovery effort provide a welcome opportunity to confront the inequities baked into our economic policies. Even if we consider the next two to four years as a short-term experiment, Voices supports the investment of state resources to amplify the impact of federal policy decisions. This is an extraordinary opportunity to address the disparities that prevent too many in our state from thriving.

1. Expanding the EITC will lift more Vermonters out of poverty

The EITC has enjoyed strong support across the ideological spectrum thanks to its dual purpose of reducing poverty while incentivizing employment. But the pre-ARPA policy left out too many low-income workers, including young adults without children. As Voices for Vermont's Children increasingly engages in advocacy for youth, we have become aware of the need for more robust economic supports for young adults as they transition from their homes and/or foster care to independent living. This is especially true for those launching into adulthood with the deck stacked against them: former foster youth, BIPOC, LGBTQI+, and those raised in economically disadvantaged families.

Last year, we began to research state level policy approaches to fill the gaps of the federal program. We were developing a proposal to do essentially what the federal government accomplished with the EITC expansions in ARPA, albeit on a temporary basis. While we would go further, and extend the EITC to students who are excluded from the federal expansion, that is a conversation for another time. Today, I am here to advocate that Vermont maintain a coupled EITC program, and supplement the federal benefit with an additional 36% state benefit to the newly eligible population of low-income workers. Voices believes there is a strong case to be made that in so doing, the state will enable meaningful progress in key areas, including the long-term mobility of "opportunity youth", the poverty rate for youth and in particular BIPOC youth in Vermont, and the overall rate of child support participation.

The Benefits of Investment in "Opportunity Youth"

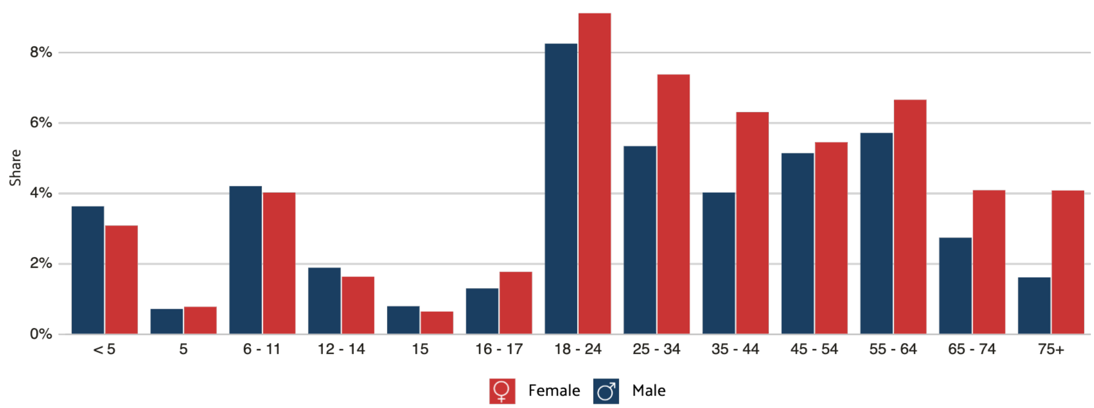
Voices is part of a national conversation on directing timely supports to "opportunity youth" – young people between the ages of 14-24 who are not connected to either education or employment. According to research, workforce attachment in the early twenties reduces the risk of future joblessness and contributes to higher future earnings, suggesting a positive effect of early work experience on long-term socioeconomic mobility.[i]

Young adults are naturally overrepresented in the low wage workforce. In 2020, 48% of US workers earning the federal minimum wage or less were under age 25, even though that age cohort makes up less than a fifth of the hourly paid workforce.[ii] They are also overrepresented in the service sector, which dominates Vermont's economy and was profoundly impacted by the pandemic. Policy interventions that strengthen economic security and support workforce attachment are appropriate and timely for our state.

Young Adults Experience the Highest Poverty Rates – Especially BIPOC Youth

Young adults between the ages of 18-24 experience the highest rates of poverty of any demographic (see chart below). Rates of poverty for BIPOC youth are disproportionately high. Nationally, 21.6 percent of Asian young adults, 19.2 percent of Black young adults, and 16.4 percent of Hispanic young adults experienced poverty in 2018.[iii] Expanding the EITC to younger workers has the potential to be transformative, in that it will provide important resources to help them cover everyday living expenses and plan for the future, such as saving for a vehicle or investing in education and training to improve their economic mobility.

Poverty Rates by Age and Gender, 2018



Source: https://datausa.io/profile/geo/vermont/#economy

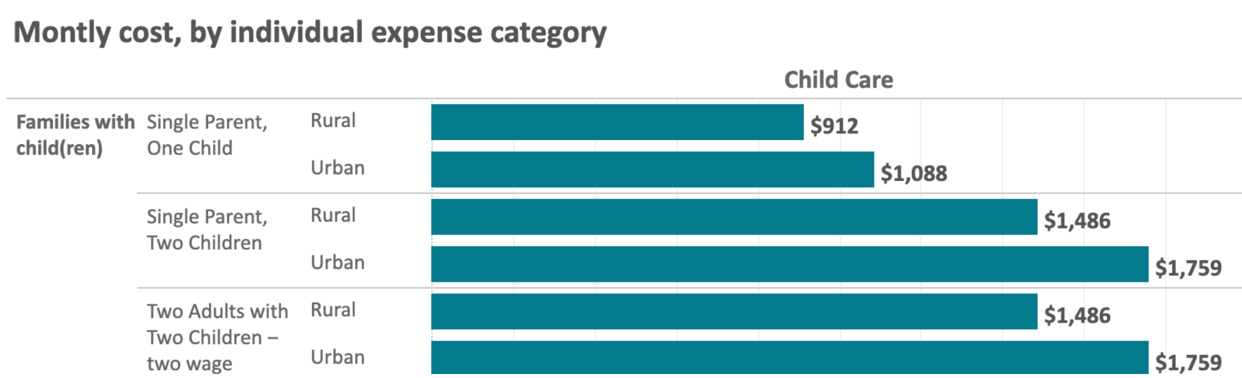
Potential positive impact on child support participation for noncustodial parents

A demonstration program run by MDRC (a policy research organization) in New York from 2014-2017 sought to measure the likely impacts of increased EITC benefits for workers without dependent children (including noncustodial parents). [The Paycheck Plus]() program provided an annual bonus at tax time of up to $2,000 with program parameters that fairly closely approximated EITC eligibility. There were a number of promising findings, including a 7.2% higher rate of child support participation (defined as having made at least one payment during the year) for noncustodial parents who received the bonus vs. those in the control group.

2. The Child and Dependent Care Credit (CDCC)

The economic impact of the pandemic has hit caregivers – who are primarily women – and their children hardest. The US Census Bureau's [Pulse survey] provides useful data about how households are faring during the pandemic. Particularly relevant to this discussion are the data showing that households with children are having more difficulty paying for usual expenses than those without children. Vermont survey responses for the week ending March 1st showed that nearly a third (32%) of households with children found it *somewhat* or *very* difficult to pay usual expenses, compared to 25% of households without children.

Child care has been a major focus of the legislative agenda recently, so I know you are aware that this critical economic and developmental support has not seen a level of public investment on par with other types of infrastructure. As a result, child care represents a significant portion of working families' budgets – enough to literally drive parents out of the workforce. While Vermont works toward the goal of robust, equitable public investment in the early care and learning system, providing economic relief to families struggling with child care bills that represent 20-30% or more of their income[iv] via an expanded CDCC is a wise investment in family economic security. To further illustrate this point, see below for a data visualization of child care costs for various family configurations, without CCFAP and the CCDC (and check out more basic needs budget visualizations created by our research director here). We strongly support the continued linkage between the Vermont CDCC and the federal credit.



[i] https://www.urban.org/urban-wire/people-color-employment-disparities-start-early
[ii] https://www.bls.gov/opub/reports/minimum-wage/2020/home.htm
[iii] https://www.clasp.org/publications/report/brief/eitc-childless-workers-2020
[iv] https://letsgrowkids.org/client_media/files/pdf/GrowingVTKids.pdf