



Support Virginia Families through a Commonwealth Kids Credit

By Megan Davis and Rodrigo Soto

True economic prosperity means that families are doing well and have the resources and opportunity to thrive. By coming together, people in Virginia have won an improved Earned Income Tax Credit (EITC), increased minimum wage, and expanded workers rights in recent years — policy wins that lift families up. Yet more must be done to reverse decades of low-road policies that limited opportunities and kept incomes down. In addition, household and family buying power has eroded recently because inflation has outpaced any income gains, while corporate profits continue to rise.¹²

State lawmakers must enact policies that provide families with the resources they need for healthy food, child care, a roof over their head and more. Establishing a state Child Tax Credit, in particular, would make the cost of living more affordable for over 700,000 families and benefit more than 1 million children.

Making Virginia More Affordable

One lesson from the response to the COVID-19 pandemic and economic crisis is that direct support to families is one of the best ways to help families and boost the economy.



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One lesson from the response to the COVID-19 pandemic and economic crisis is that direct support to families is one of the best ways to help families and boost the economy. Improvements in family economic security measures, such as food security and financial stability, coincided with distribution of federal stimulus checks and refundable tax credits. State policymakers should draw from this lesson and prioritize policy changes that will sustain a long-term and equitable recovery that reaches everyone in Virginia, particularly people who have been most impacted by the COVID-19 pandemic and are the most affected by rising inflation. As we consider solutions to make the cost of living in Virginia more affordable, direct support for families through a new state child tax credit should be considered.

At the federal level, tax credits like the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) are proven policy tools for supporting families with low incomes. Many states already supplement the federal versions of these credits with state credits, including Virginia, which provides a state EITC that matches a portion of a family's federal EITC. In addition to further strengthening the state's EITC, Virginia should also consider enacting a state CTC to help all families thrive.

Success of the 2021 Federal CTC Provides a Roadmap

Congress improved the federal CTC for 2021 under the American Rescue Plan Act (ARPA). ARPA increased the size of the federal credit for certain income levels, removed income eligibility restrictions, and allowed families with low-incomes to receive the full amount of the credit by making it refundable. Because ARPA removed eligibility restrictions, more families, especially families with low incomes, could access the full CTC. The improved credit helped an estimated 1.6 million children in Virginia — 85% of all children in the state.³ The average benefit for Virginia families who received the credit was estimated to be an additional \$2,520 per family (on top of the amount they would receive under the existing CTC).

The temporary expansion of the federal CTC under ARPA dramatically reduced poverty. Recent data

shows that the policy lifted 5.3 million people out of poverty nationally, including 2.9 million children — contributing to a stunning 46% drop in child poverty. In 2021, the CTC alone was the third most effective poverty reduction measure taken by the federal government, only behind Social Security and Pandemic Relief Checks.⁴ However, with failed attempts to continue the brief expansion of the federal CTC, these significant gains may only be temporary. Now, over 350,000 children in Virginia are unable to access the full federal child tax credit.⁵ Over half of these children are Black and Latino. With knowledge of both the success of ARPA in reaching families with low incomes and lifting millions of children out of poverty, as well as the gaps left after its expiration, states can act to fill in where the federal credit falls short and create their own CTCs.

ARPA improvements made the federal CTC more accessible to children in low-income households

	Federal CTC	Improved CTC under ARPA
Credit Amount	\$2,000/child <17	\$3,600/child, < 6 \$3,000/child, 6-17
Refundability	Refundable up to \$1,400	Full credit is refundable
Income Limits	Phases in starting at \$2,500 of income. Phases out at \$400k of income.	No income phase in. Phased out for incomes higher than \$75,000 for single filers and \$150,000 for joint filers (Higher income filers could still access the \$2,000/child benefit)

The temporary expansion of the federal CTC helped reduce child poverty by 46%



Direct assistance to families with children gives them freedom to buy what their family needs most.



A \$500 state CTC is enough to buy half a month's worth of groceries for a family of four at a moderate cost.



Refundable tax credits are linked with a range of long-term benefits, including better health outcomes.

Virginia Can Continue Momentum of Expired Federal CTC Improvements

Similar to how Virginia builds upon the federal EITC by offering a state version, Virginia could create a state supplement to the federal CTC. Currently, 13 states have versions of this policy already on the books.⁶ In 2022 alone, New Jersey, New Mexico, and Vermont enacted state CTCs, while Rhode Island and Connecticut instituted one-time child tax rebates. While state CTCs are varied in scale and scope, many focus their efforts on children in low-income families, providing targeted relief to families no longer served by the federal CTC.

An effective state-level credit would be far-reaching, yet guarantee that families who need it the most were able to access the full credit.

Virginia could create a refundable \$500 Child Tax Credit per child under 18 in households earning less than \$100,000. Overall, more than 1 million children in more than 700,000 families would benefit from a CTC in Virginia. Under this proposal, 74% of the overall benefits would be received by families with incomes under \$76,000.⁷ In addition to supporting families broadly, this policy would likely provide a substantial income boost to families of color, especially Black and Latino families, and help to address low pay that results from discrimination in and barriers to employment, education, and other areas. A state-level CTC would provide an income boost today and improve outcomes tomorrow as refundable tax credits are linked with a range of long-term benefits, including better health outcomes, and make it more likely that children will reach their full potential.



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Making sure our children have what they need to be healthy and cared for is increasingly expensive and families need support, especially as inflation compounds child-raising costs further. With the costs of essentials rising, families with low incomes, who spend higher portions of their incomes on essential goods and services, are being hit the hardest.⁸ When surveyed, families who received the expanded federal CTC reported spending it on housing and utilities, clothing and essential items, food, savings, and paying off debt.⁹ A \$500 state CTC is enough to buy 6 months of diapers for a newborn, half a month's worth of groceries for a family of four at a moderate cost, or seven months of a family's water bill. In a nutshell, it means more resources for Virginia's families to create safer, healthier environments for their children.

Not only would a state CTC help Virginia families, it would also reorient Virginia's tax code toward justice. Families with low incomes pay a greater share of their incomes in state and local taxes compared to higher-income families, but a state CTC could help to flip Virginia's upside-down tax system and move tax policy in a more fair direction.

Virginia has the resources to provide direct assistance to families through a state-level CTC. In doing so, state lawmakers would be making a critical choice to help families live with greater security and help our communities to thrive.

**More than
1 million
children in
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Proposal for a State Child Tax Credit in Virginia

State CTC Proposal	
Credit Amount	\$500/child for children under 18
Refundability	Fully; families have access to the full credit.
Income Limits	For households earning <\$100k.
Households Expected to Receive CTC	737,000
Children Impacted	1,029,000
Average Household CTC Benefit	\$768

Endnotes

1. Rich, R., Tracy, J., and Krohn, M., “More workers find their wages falling even further behind inflation,” Federal Reserve Bank of Dallas, Oct 2022
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3. Marr, C., Cox, K., Hingtgen, S., and Windham, K., “Congress Should Adopt American Families Plan’s Permanent Expansions of Child Tax Credit and EITC, Make Additional Provisions Permanent,” Center on Budget and Policy Priorities, May 2021
4. Burns, K., Fox, L., and Wilson, D., “Expansions to Child Tax Credit Contributed to 46% Decline in Child Poverty Since 2020,” U.S. Census Bureau, Sep 2022
5. Marr, C., Cox, K., Calame, S., Hingthen, S., Fenton, G., and Sherman, A., “Year-End Tax Policy Priority: Expand the Child Tax Credit for the 19 Million Children Who Receive Less Than the Full Credit,” CPBB, Dec 2022
6. Davis, A., “More States are Boosting Economic Security with Child Tax Credits in 2022,” Institute on Taxation and Economic Policy, Sep 2022; “Child Tax Credit Overview,” National Conference of State Legislatures, Nov 2022. Combined lists show 13 states with state CTCs (NCSL accounts for Maryland’s small credit, yet is not updated to include Rhode Island, which is included in ITEP)
7. ITEP analysis based on 2022 income of tax units within Virginia, Dec 2022
8. Sawhill, I., Welch, M., and Miller, C., “It’s getting more expensive to raise children. And government isn’t doing much to help.” Brookings Institution, Aug 2022
9. Hamilton, L., Roll, S., Despard, M., Maag, E., Chun, Y., Brugger, L., and Grinstein-Weiss, M. “The impacts of the 2021 expanded child tax credit on family employment, nutrition, and financial well-being,” Brookings Institution, Apr 2022



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