ADMINISTRATION FOR CHILDREN & FAMILIES

Federal Child Tax Credit Policy Spurs State Innovation

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Federal Background

The Child Tax Credit (CTC) provides a credit of up to $2,000 per child under age 17. If a family's credit exceeds taxes owed, they can receive up to $1,700 per child of the balance as a refund, often called the Additional Child Tax Credit (ACTC) or the refundable CTC. The ACTC is limited to 15 percent of earnings above $2,500. Phasing the credit in this way results in about 17 million[i] children in low-income families not receiving the full $2,000 per child credit because their families do not earn enough. Over half of Black and Hispanic children are in families ineligible for the full CTC because their families earn too little.[ii]

In response to the COVID-19 pandemic and subsequent economic disruptions, the American Rescue Plan Act temporarily expanded the CTC in several ways:

- The maximum CTC was increased from $2,000 to up to $3,600 per child under age 6 and up to $3,000 for older children.
- The CTC was made fully refundable. This meant that low-income households were entitled to receive the full benefit.
- The credit's scope was expanded, allowing 17-year-olds to qualify.
- Many eligible taxpayers received monthly advance payments of half of their estimated 2021 CTC from July through December instead of waiting until tax filing season to receive their benefits as a tax refund.

The Resilient Families Hub is an interagency effort to expand knowledge of cash transfer programs within the federal government as part of the Facing Financial Shock initiative. Developed by the Executive Order on Transforming Federal Customer Experience and Service Delivery to Rebuild Trust in Government (EO 14058), the mission of FFS is to provide stability and smoother pathways to resilience through better benefit delivery, better benefits, and better jobs.

The American Rescue Plan also permanently made all families with children in Puerto Rico eligible for the same CTC as other American families.[iii]

The results of the CTC expansion were profound. Over 60 million additional children received the expanded CTC[iv] – providing critical breathing room to tens of millions of families[v]. In addition, it had a dramatic impact on lowering child poverty. The expansion cut child poverty nearly in half to a record low of 5.2 percent, while Black and Hispanic children all saw record lows in child poverty.[vi]

Numerous studies have documented a wide range of benefits attributed to the expanded, advanced Child Tax Credit, beyond poverty reduction. These included reductions in food insecurity and financial hardships (both of which increased following the conclusion of the expanded CTC). Families were better able to meet their basic needs, meet emergency expenses, and decreased their use of high-cost financial services. Following tax time, when most families received half the credit they were eligible for (having received the other half in monthly payments from July through December), families used the payment to pay off debt, including housing arrears, which resulted in a decline in housing hardship.[vii] These outcomes may have been what spurred several states to create and expand state-level CTCs, even as the federal expansion expired.

State Action on Child Tax Credits

Following the expiration of the federal expanded CTC, state policy makers created or expanded their own state-based CTCs. Currently 16 states, plus the District of Columbia, have their own version of a CTC, with 14 of these states either creating or expanding the credit since 2021 (Illinois is the latest state to add its own in the spring of 2024.)[viii]

State-level CTCs vary widely. The credits range in value from $100 per child in Arizona and Oklahoma to $1,750 per child in Minnesota. In Utah, the CTC is only available for children 0 to 3, while New Mexico includes children up to 19 years. Two states, Idaho and Massachusetts, provide the credit to all households with children, including very high earners, while most states deliver the credit to only low- and middle-income families.[ix]

Several states took inspiration from the innovative design aspects of the 2021 federal CTC. Most prominently, 13 states adopted credits that are fully refundable so that even very low-income families can receive the full state-CTC benefit, expanding the number of eligible households and allowing more no and low-income families to receive the credit. This is in sharp contrast to the standard federal CTC, which requires families to have at least $2,500 of earned income before they become eligible.[x]

At least one state, Minnesota, plans to send advanced, recurring payments of up to half the CTC a family qualifies for in three equal payments in July, September, and November, allowing families to claim the remainder of the credit on their tax returns in the following spring.[xi] We detail the evolution of that credit below.

Case Study: Minnesota's Child Tax Credit

In 2023 Minnesota created the largest state-level CTC in the nation at $1,750 per child. The credit is fully refundable, so even families with no or very low-income receive the full credit. It is expected to benefit more than 500,000 children in approximately 300,000 households. This would reduce the state's child poverty level by one-third.[xii] As of November 2024, the credit has already served 83 percent of all eligible households, reaching 222,000 families and more than 450,000 children, with an average household credit of approximately $2,500.

To understand more about the origins of and design decisions around Minnesota's pioneering child tax credit, we spoke with officials from Minnesota's Children's Cabinet and Department of Revenue. The remainder of this paper draws on our conversation.

Background

When Governor Tim Walz took office in 2019, his main goal was to make Minnesota the best state in the country for kids. Congress allowed the expanded CTC to expire, and this inaction created a wave of state innovation to boost support for families with children. Minnesota officials felt the expanded federal CTC gave states a model for how to redesign a state-level CTC to reach very low-income families most effectively and the success of the federal government's advanced payments gave state revenue officials the confidence that they could figure out the logistics to implement similar credits at the state-level.

Design of the New Tax Credit

In designing its new program, Minnesota prioritized elements that would make the credit most successful at reducing child poverty and improving child outcomes;[xiii] this meant:

- Ensuring a sizable benefit and indexing it to inflation
- Making the credit fully refundable so that families with no earned income had access to the full credit
- Including all children through age 17
- Focusing benefits on low- and moderate-income families by beginning the benefit phaseout at relatively low levels (phaseout begins at $35,000 for joint filers and $29,500 for single heads of household)
- Implementing advanced, periodic payments of the credit

Initial Implementation of Advanced, Periodic Payments

Both community stakeholders and the governor were adamant about including the option for families to receive advanced, recurring payments, therefore the state took a few critical steps to ensure the new credit could be set up for success. First, the CTC legislation expressly authorized the Department of Revenue to hire more staff and set up new systems that would create the functionality the department needed to send out advanced payments for the first time in its history.

Second, the Department of Revenue had concerns about families opting to receive advanced credit but then experiencing an increase in earned income during the year, which would result in the household being eligible for a smaller credit and unexpectedly owing the state money back due to an overpayment of the advanced portion of the tax credit. To address this problem the legislature passed a minimum credit entitling families to at least 50 percent of their prior year's credit, even if their income changes. To prevent overpayments, the advanced payments amount to the family's minimum credit (50 percent of the previous year's credit), with the remaining balance paid out when the household files their annual tax return.

Lastly, revenue officials had to build out internal procedures and determine when and how often the department would send out the advanced payments. Given their limited bandwidth around tax filing season, the Department of Revenue opted to provide the advanced payments during the latter half of the calendar year. Advanced payment of the credit will begin in calendar year 2025 and families will be able to opt-in on their 2024 tax return to receive half of their credit distributed in three equal payments in July, September, and November. The remainder of the credit will be delivered after their tax return is filed in spring 2026.[xiv]

State CTCs and Benefits Access

Given that the new credit would be targeted to low- and moderate-income families, the state considered how this new income would impact access to public benefits and took proactive action. The enacting legislation included statutory language that explicitly stated that the new income would not impact eligibility for supports like TANF, Medicaid or general assistance, all programs where the state is able to set its own income and eligibility standards. Further, state law definitions of "unearned income" and "income inclusions" delineate which sources of income *are* included for the Child Care Assistance Program, Minnesota Family Investment Program, and the Diversionary Work Program. As the tax credits are not included in definitions of unearned income for calculating public assistance, the credits do not count against benefits. There were two federal barriers that Minnesota faced when addressing potential safety net impacts, particularly with Supplemental Security Income (SSI) and the Supplemental Nutrition Assistance Program (SNAP). After the law passed Minnesota approached the Social Security Administration to inquire if the new advance tax credit would be included as income for SSI eligibility calculations. After extensive conversations, Social Security determined that those payments should be disregarded from SSI determinations. The state is still in discussions with United States Department of Agriculture about SNAP impacts, however current federal law requires recurring state tax credits to be counted as income for purposed of SNAP eligibility.

Another key component of integrating the new CTC with the existing safety net was a targeted outreach and communications program to ensure that families on public benefits understood how advanced payments might impact their access to safety net programs. The State Department of Revenue first used information from state records of public benefits receipt such as Medicaid to send information about the credit. The state is now planning to contact SNAP recipients so that they understand the potential impacts that come with opting into the advance payments.

Ensuring Uptake Among New Filers

Because the new tax credit is available to households without earnings, about 10 percent of eligible families have never filed a tax return with the state. Minnesota officials knew they would have to find creative ways to connect with these households to make sure they were aware of the advanced CTC and understood how to access it. To address this situation the governor's office worked with state agencies and provided funding to community organizations to conduct outreach to hard-to-reach populations that qualify for the new credit, especially if they don't normally file a tax return. Minnesota also appropriated new funding to local organizations to provide free tax filing services for these new filers.

Looking Forward: Advice for Federal and State Governments

Minnesota's first advanced payments will take place in the summer of 2025, and while many will opt-in to the new system, the state does worry that the potential reduction in SNAP benefits may limit participation. Minnesota urges the federal government to align state tax credit policy with the way it treats federal tax refunds, which are not counted as income for any public benefit program. In addition, the state stresses that the Internal Revenue Service's Volunteer Income Tax Assistance (VITA) grant funds have been critical to high participation rates thus far, and it encourages Congress to protect and increase funding for these services.

Minnesota's advice for other state governments pursuing tax credit expansions is to ensure that the state's governor and legislature are steadfast champions of the effort, to involve stakeholders and advocates early and often, and to have a strong, funded outreach plan to ensure maximal uptake of the new benefit.

Thanks to the State of Minnesota Department of Revenue and Children's Cabinet staff for their contributions to this case study.

[i] "T24-0082 – Distribution of Tax Units, Children, and Dependents by Size of Child Tax Credit (CTC), 2025" (December 10, 2024), Tax Policy Center. Distribution of Tax Units, Children, and Dependents by Size of Child Tax Credit (CTC), 2025 | Tax Policy Center.

[ii] Goldin, Jacob and Katherine Michelmore. "Who Benefits from the Child Tax Credit?", National Tax Journal, Vol 75, No. 1. Chicago. https://doi.org/10.1086/717919

[iii] *"Child Tax Credit: The American Rescue Plan increased the Child Tax Credit and expanded its coverage to better assist families who care for children"*. U.S. Department of Treasury. https://home.treasury.gov/policy-issues/coronavirus/assistance-for-american-families-and-workers/child-tax-credit

[iv] *"The Child Tax Credit"*, U.S. Department of Treasury, https://www.whitehouse.gov/child-tax-credit/#:~:text=For%20the%20first%20time%2C%20the%20CTC%20provided%20more%20to%20help,of%20millions%20of%20working%20families.

[v] Minoff, Elisa. "Advancing Equity through the American Rescue Plan's Child Tax Credit, Laying the Foundation for a Child Allowance." Center for the Study of Social Policy, March 2021.

[vi] Burns, Kalee and Liana E. Fox. "The Impact of the 2021 Expanded Child Tax Credit on Child Poverty", Census Bureau. November 2022. https://www.census.gov/content/dam/Census/library/working-papers/2022/demo/sehsd-wp2022-24.pdf

[vii] Curran, Megan A.2022. "Research Roundup of the Expanded Child Tax Credit: One Year On." Poverty and Social Policy Report, vol.. 6, no. 9. Center on Poverty and Social Policy, Columbia University. https://povertycenter.columbia.edu/sites/default/files/content/Publications/Child-Tax-Credit-Research-Roundup-One-Year-On-CPSP-2022.pdf

[viii] *How do state child tax credits work?* (2023, December). Tax Policy Center. https://taxpolicycenter.org/briefing-book/how-do-state-child-tax-credits-work. Note: Washington, D.C. and Illinois created their CTCs in 2024.

[ix] Ibid.

[x] Ibid.

[xi] Williams, S. & Minnesota House Research Department. (2024). *Minnesota's child Credit and Working Family credit*. https://www.house.mn.gov/hrd/pubs/ss/sschldwfc.pdf

[xii] State of Minnesota, Office of the Governor. (2023). *Minnesota Child Tax Credit*. https://mn.gov/mmb-stat/childrens-cabinet/child-tax-credit-summary.pdf

[xiii] Minnesota cited recommendations by the Institute on Taxation and Economic Policy on how to maximize the impact of child tax credits. Read more: https://itep.org/states-are-boosting-economic-security-with-child-tax-credits-in-2023/

[xiv] Williams, S. & Minnesota House Research Department. (2024).