BUILDING STRONG FOUNDATIONS:

Advancing Comprehensive Policies for Infants, Toddlers, and Families

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Cash Assistance and Tax Credits: Critical Supports for Infants, Toddlers, and Families

Families in poverty with infants and toddlers should get cash assistance and refundable tax credits to supplement their earnings. The first three years of life set the foundation for children's development, and the stressors associated with living in poverty may be particularly detrimental during this time.[1] Income supports, such as cash assistance and refundable tax credits, help families in poverty and low-income working families get cash to bridge the gap between what parents earn and what they need to support their families. Cash assistance is a set monthly amount provided by federal and/or state government programs to families living in or near poverty and earning too little to meet their basic needs. Tax credits reduce the taxes low-income working parents pay and are generally intended to offset the burden of certain expenses. Families typically receive tax credits once a year after filing their income taxes. If a tax credit is refundable, families can receive the credit even if they do not owe income taxes.

Income supports play an important role in improving the wellbeing of infants, toddlers, and families. Low-income families face incredible stressors, including not having enough food to eat; moving frequently or experiencing homelessness; and not having enough money to afford clothing and diapers or to pay utility bills.[2] High levels of instability are particularly harmful to infants and toddlers because they are in a critical period of development necessitating safe, secure, and responsive environments.[3] Financial hardship is associated with a host of negative outcomes for young children's health and development, including obesity, asthma, and developmental delays.[4] Disparities in cognitive and social-emotional development between low- and high-income children are evident as early as 9 months and only widen over time.[5]

In the short term, additional income can be a stabilizing force for families living on the brink. Parents who receive cash assistance often rely on it to pay for rent, utilities, groceries, and other household necessities. Low-income families use cash from tax credits to pay down debt, cover household expenses, and pay for necessities such as clothing, shoes, or school supplies.[6] Cash assistance and tax credits reduce the number of families in poverty every year.[7] This additional income has important benefits for families' and children's well-being in the long term as well.[8] Increased income during early childhood is associated with improved parental and child health, children's school performance, and even increased earnings later in a child's life.[9]

The federal government provides income support to families through cash assistance programs as well as through the tax code, though the programs generally serve different families. Cash assistance is targeted to families living in or near poverty, with little to no income and few assets. Tax credits, meanwhile, are generally aimed at working, low- to middle-income parents.

The two largest cash assistance programs are Supplemental Security Income (SSI) and Temporary Assistance for Needy Families (TANF). Income-eligible families may receive SSI if a child is blind or severely disabled, or if an adult caregiver is blind, elderly, or disabled and unable to work.[10] In 2017, the federal SSI benefit was set at $735 per month for an individual with no other income. Forty-six states use state funds to supplement SSI benefits for adults, and 31 states do so for children.[11]

TANF is a block grant that gives states a pool of funding they can use to provide eligible families in poverty with a range of services, including cash assistance, employment services, and child care subsidies.[12] States have considerable flexibility in how they spend TANF funds and set their own eligibility criteria for the different types of benefits and services.[13] Eligibility thresholds are generally quite restrictive: in more than 25 states, a family of three with earnings at half of the federal poverty level earns too much to qualify for TANF cash assistance. The TANF cash assistance program nationally reaches fewer than 25 percent of families in poverty, and the benefits are meager at best: in 2015, the median monthly benefit was $432 for a family of three.[14]

Two key federal tax credits provide income support to low-income working parents: the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). The EITC is available to income-eligible working parents and is intended to incentivize work and offset federal tax burdens.[15] In the 2015 tax year, families with children received an average EITC of $3,186 annually, but credit amounts vary based on filers' income, marital status, and the number of dependent children in the home. The value of the EITC increases with income up to a maximum value, and then phases out gradually as income increases.

The CTC, which is designed to offset the costs of raising a child, provides a maximum annual credit of $1,000 per child under the age of 17. The CTC is partially refundable, meaning that low-income parents who owe little or no federal income tax can receive a refund up to 15 percent of their earnings above $3,000.[16] Families who earn less than $3,000 per year are not eligible for the credit.

Existing income support programs can be improved and strengthened. Families need additional support to make ends meet—particularly families of infants and toddlers, who are uniquely vulnerable to financial instability. Parents of infants and toddlers are typically younger and less advanced in their careers, meaning they are attempting to juggle the significant costs of raising young children during a time when they are earning relatively little.[17] The median household income for a married couple with at least one child under age 5 is roughly $18,000 lower than a couple whose youngest child is 6 or older.[18] The lack of family-friendly employment policies in the United States – particularly endemic in low-wage jobs – only makes families' situations more precarious. Consequently, despite high rates of employment, parents of young children are more likely to be in poverty than adults without children or adults with school-age children.[19] Cash assistance and tax credits can help,[20] but the need among low-income families exceeds the available support, and program requirements are often at odds with reality for struggling parents of infants and toddlers.

The federal government and states can do more to extend the benefit and reach of tax credits for working parents. The CTC in particular is only partially refundable and includes a minimum earnings requirement, which means it does not reach the lowest-income children and families. In 2011, an estimated 30 percent of children under age 3 lived in families that did not receive the full CTC because they did not earn enough.[21] Extending the refundability of the CTC at the federal level would be an effective strategy to support especially vulnerable families. Similarly, states may consider creating tax credits that build off of federal credits. Twenty-six states and the District of Columbia offer state EITCs.[22] These credits offset the cost of state and local sales, excise, and property taxes, which comprise a larger share of low-income families' take-home pay. Five states offer a child tax credit; only Colorado targets its CTC to families with children younger than 5.[23]

Substantial federal investments in cash assistance programs are critical to ensure they are available to eligible families and adequate to meet families' needs. But even without a federal investment, states can leverage the flexibility in programs like TANF to better support parents of infants and toddlers. For example, many states have policies that present significant barriers for pregnant women and their newborns seeking TANF benefits.[24] In 19 states, pregnant women are ineligible for benefits if they have no other children, and the majority of states require pregnant women to comply with TANF work requirements. Sixteen states have policies that deny benefits to children who are conceived and born while their parents are receiving cash assistance. Policies like these fly in the face of a substantial body of research that demonstrates the negative effects of poverty and maternal stress on unborn babies during pregnancy.[25] States can and should adopt more flexible policies for parents and pregnant women that both improve families' economic stability and promote parents' and babies' health during this critical period of development.

Income supports provide essential aid to low-income working families who often cannot make ends meet on their incomes alone. The instability and stress caused by financial hardship can be detrimental to children's development, particularly during the first few years of life. Ensuring that cash assistance and tax credit programs are accessible to parents of infants and toddlers is an important way for policymakers to support families in need.

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