

October 2024

Executive Summary

North Carolinians deserve the credit

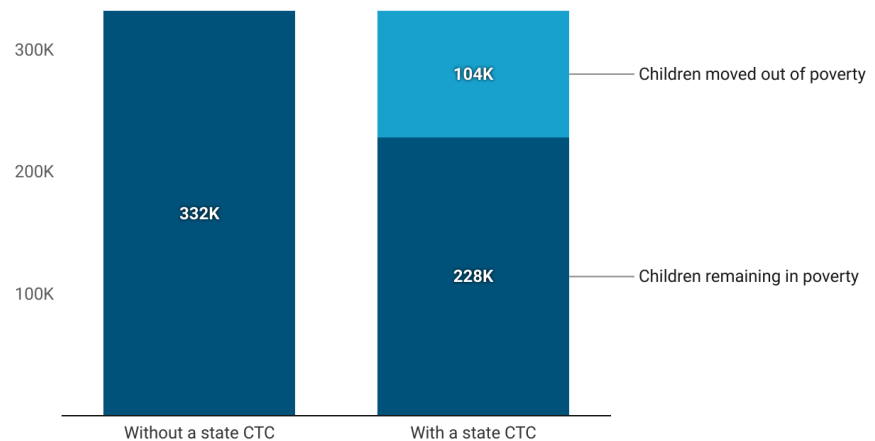
Despite strong state performance on traditional measures of economic success, financial hardship is widespread in North Carolina and child poverty rates are high. Data show that households with children particularly struggle to pay their regular expenses, while structural barriers that block North Carolinians of color from accessing high-wage jobs at the same rate as white North Carolinians lead to higher rates of poverty among children and families of color.

The costs of child poverty — both to the children who experience it and to our communities at large — are well-documented and severe. To deliver well-being to North Carolinian kids and build a sound economic foundation for us all, lawmakers should adopt a powerful policy tool backed by decades of research: a bold and generous state Child Tax Credit (CTC).

A generous state Child Tax Credit would lift more than 100,000 North Carolinian children above the poverty line.

A North Carolina CTC that provides \$1,900 per child under 6 and \$1,600 per child for older children would reduce child poverty in our state by nearly one-third. In total, 65 percent of all North Carolinian children would benefit from this CTC, including more than 95 percent of children in households with incomes below about \$80,000. North Carolinians have already experienced the poverty-busting power of child tax credits: In 2021, the expanded pandemic-era federal CTC reduced child poverty in North Carolina by more than 40 percent in a single year.

Estimated child poverty reduction impact of a fully refundable Child Tax Credit in North Carolina set at \$1,900 per child under 6 and \$1,600 per child 6-17



Note: The CTC modeled in this proposal phases out at a rate of 5% for income above \$35,000. Estimate is based on 2017-2019 Current Population Survey data adjusted for 2022 economic conditions.

Source: Special data request to the Center on Poverty & Social Policy at Columbia University, via ITEP



North Carolinians can expect to see wide-ranging benefits from a state CTC in health outcomes, school performance, child welfare, and more.

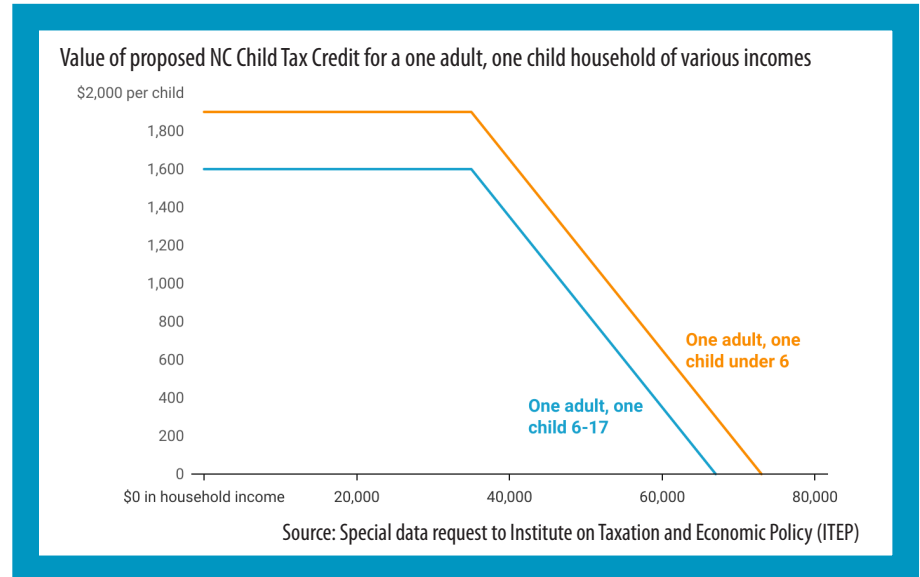
A sizeable body of research on tax credits for low- and moderate-income families has found a variety of benefits for children and their caregivers. These include improvements in birth weight, food security, home environment quality, and caregiver mental health. Guaranteed income pilots nationwide provide further evidence for the effectiveness of cash: One study has found improvements in short-term indicators of physical and mental health as well as increased rates of entrepreneurship among guaranteed income recipients.

Read the full report at NCBudget.org/CTCreport

A well-targeted state CTC would make North Carolina's upside-down tax code more equitable, unlike the pursuit of corporate income tax cuts.

The state CTC proposed in this report would provide an annual tax benefit of \$2 billion to North Carolina families. Of that total, almost 70 percent would go to the lowest-income 40 percent of households and 93 percent would go to the lowest-income 60 percent of households. Because North Carolina's tax code asks the most of those with the least, these low- and moderate-income households currently pay more in state and local taxes than the richest 1 percent as a share of their household income.

A state CTC contrasts sharply with NC lawmakers' pursuit of corporate income tax cuts. More than 9 out of every 10 dollars of these tax cuts will flow to people who do not live in North Carolina — primarily shareholders and corporate executives. The residents who do benefit are mostly the wealthiest: Of the small portion of the cuts that remain



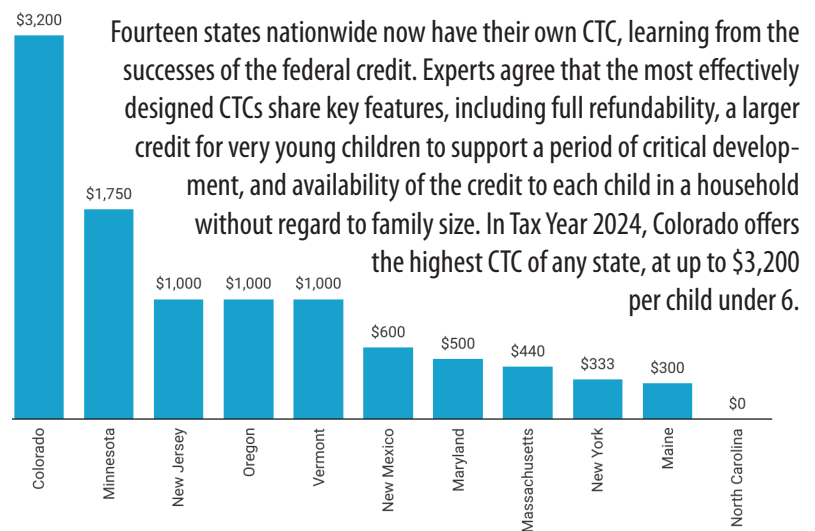
in-state, 70 percent will go to the richest 20 percent of households. When the state corporate income tax is eliminated in 2030, North Carolina will have \$2 billion less in

public revenue each year to invest in public policies that have a proven track record in delivering well-being, such as a state Child Tax Credit.

Research supports CTCs as a financially sound social investment; the same is not true of corporate income tax cuts.

Researchers have estimated the annual cost of child poverty in the United States at over \$1 trillion, or 5.4 percent of GDP. It is estimated that for every dollar spent reducing childhood poverty, the country would save at least \$7 in future economic costs, including in crime and incarceration, child maltreatment, child homelessness, reduced earnings, and poor health. By contrast, more than 40 years of research has found that income tax cuts for corporations may have a small effect — but more likely no impact — on economic growth.

With more states adopting and expanding state CTCs each year, NC lawmakers are increasingly out-of-step with their peers in addressing cost-of-living issues for families.



Max state credit per child under 6 for select states, Tax Year 2024. Source: Center on Budget and Policy Priorities