**Fiscal Facts: States look to child tax credits to boost family budgets**

The number of states offering income tax credits to families with children has doubled in the last three years, after the federal child tax credit was expanded twice since 2017.

The second federal expansion expired in 2021, and there followed a push by some states to adopt or expand their own child tax credits. This occurred during a period of high inflation, rising child care costs, and as many states enjoyed record budget surpluses. This trend also follows years of declining birth rates and mounting concerns about slow growth and even contraction in the workforce.

These same factors are at play in Wisconsin, raising the question of whether an expanded child care tax credit should be on the table as lawmakers continue to debate potential uses for the state’s budget reserves — projected to be more than $4 billion at the close of this two-year budget cycle. Wisconsin lawmakers recently debated and voted for tax breaks for family child care costs, though they ultimately were vetoed. Supporting child care providers and cutting income taxes remain top priorities for Gov. Tony Evers and the Legislature, respectively.

Fourteen states had permanent state child tax credits as of the publication of this report, according to the nonpartisan National Conference of State Legislatures (NCSL). At least 12 states adopted or expanded the amount of, or eligibility for, child tax credits from 2021 until the present: California, Colorado, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New Mexico, New York, Oregon, Utah, and Vermont. This approach has enabled policymakers to target tax relief to families with children – an attractive proposition for states that, like Wisconsin, face particularly acute demographic challenges linked to an aging population and declining birth rates.

Perhaps the state that has most aggressively embraced the child tax credit is Minnesota. This year, its policymakers enacted a refundable credit that will provide nearly 300,000 households up to $1,750 per child — the largest credit amount of any state. State tax credit amounts vary widely; at the other end of the spectrum is New Mexico, with a credit of between $75 and $175 based on income.

All of the states restrict eligibility for their credits based on the age of the child being claimed, the filer’s household income, or both. Eleven of these states’ child tax credits are refundable, meaning households are eligible to claim them even if they have no income tax liability.

On its own, modest tax relief such as a child credit is very unlikely to change a family’s calculus about family planning, or to incentivize families with young children to move to Wisconsin. However, it could be one piece of a larger strategy to make the state a more attractive place to raise a family. Potential downsides of this or any tax cut include the price tag, which — depending on the amount and eligibility criteria — can be formidable. Also, child tax credits are just one of many options at the state’s disposal.

It’s now clear that 2021 was an inflection point for child tax credits as more states sought to adopt them. This approach has the benefit of providing relief to families while allowing them to choose a child care approach that best suit their needs.

*This information is a service of the Wisconsin Policy Forum, the state’s leading resource for nonpartisan state and local government research and civic education. Learn more at* [*wispolicyforum.org*](https://wispolicyforum.org/research/state-tax-burden-up-but-overall-burden-still-falling/)*.*