

Modernizing Oklahoma's Child Tax Credit

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About Me

- Jacob Bastian, Ph.D. in Economics from University of Michigan
- Senior Fellow at R Street Institute
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- Experience advising policymakers on tax and family policy
- I have worked with policymakers at the federal, state, and local level on a number of policy issues

What is a Tax Credit? Comparing Two Oklahoma Families

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 - Standard deduction and exemptions in OK = \$17,700
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 - Would benefit from refundable taxes but not non-refundable taxes
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- Family B: Working-class parents, 3 kids, income = \$50,000
 - After deductions, taxable income about \$32,300
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- Lesson: Refundable credits help low income working parents and nonrefundable credits do not

Why Tax Credits Matter

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- **Encourage work:** Research shows credits increase labor force participation — rewarding work, not replacing it.
- **Reduce poverty & hardship:** higher-frequency monthly CTC payments cut food insufficiency by 25% among low-income families
- **Build stronger kids:** Better health, higher test scores, more HS graduation, college entry & completion
- **Invest in Oklahoma's future:** Kids benefiting from credits grow up to earn more, pay more taxes, and rely less on assistance
- We know that investing in OK's children means investing in OK's economy

Oklahoma's Current Child (Care) Tax Credit

- **Structure:** Greater of 20% of federal CDCTC *or* 5% of federal CTC
- **History:** Pre-2008 — only 20% of CDCTC; since 2008 — added 5% of CTC and a \$100,000 AGI cap
- **Eligibility: Hard cliff at \$100,000** federal AGI (any filing status)
 - So if you earn \$100,001 you are completely ineligible
- **Nonrefundable tax credit**
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- **Problem:** Families earning under \$50,000 or so (which includes many families in rural OK) owe little state income tax and therefore benefit little from the credit
 - Because these are non-refundable credits, whereas they would benefit from refundable tax credits

Oklahoma Earned Income Tax Credit

- **Another tax credit, similar to the CTC**
- **Structure:** 5% of the federal EITC
- **History:** Enacted 2002; nonrefundable in 2016–2021; **refundable since 2022**
- **Eligibility:** Follows federal EITC rules; benefits those earning below \$60,000 or so
- **Current max:** about \$400
- **Budget cost:** \$40M
- **Why it matters:** OK has already embraced refundability — EITC shows it can work while encouraging employment

Evidence on the Impact of Tax Credits

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- **Child outcomes:** More resources \Rightarrow healthier kids, stronger test scores, better school completion
 - Each \$1000 in tax-credits is associated with a 2–3% reduction in the low birth weight; a 6% of a standard deviation increase in childhood test scores; 1.3% increase in HS graduation; a 4% increase in graduating college; and a 1–2% increase in working and earning as young adults in mid-20s

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- **Long-run mobility:** Children in families receiving credits earn more and work more as adults
- **Fiscal effects:** More work \Rightarrow more taxes paid; less use of SNAP, TANF, etc
- Tax credits are an **investment** in Oklahoma's workforce and economy

Lessons from Other States

- Both red and blue states have adopted refundable CTCs successfully — including Colorado, New Mexico, Minnesota, Vermont, New York, California, Idaho, and Utah — reducing child poverty and supporting millions of families
- Key design levers: **refundability**, per-child amount, young-child bonus, phase-out rules
- **Result:** Refundable credits deliver real help to families without harming work incentives

Why Refundability Matters

- Nonrefundable credits only offset state *income* tax — but most low-income families owe little or none
- Families below \$50k get no benefit now, even though they pay **payroll taxes, sales taxes, local taxes**
- Refundability ensures support reaches the families who need it most and strengthens work incentives

Benefits of a Fully Refundable CTC

- **Targets need:** Delivers support to low-income working families
- **Cuts hardship:** Covid-era policies showed that monthly, refundable CTC benefits reduced food insufficiency
- **Financial stability:** Families used payments for utilities, rent, debt repayment, and school costs
- **Minimal work effects:** Studies find no significant short-run employment reductions
- **Long-run returns:** Stronger kids become stronger workers, taxpayers, and community members

Options for Improving Oklahoma's CTC

- **Make the credit (fully) refundable** so (all) lower-income families benefit
- **Raise the amount** (e.g., 10% of federal CTC) to provide meaningful support
- **Young-child bonus** — larger credit for ages 0–5, where returns are highest
- **Smooth the phase-out** — replace the \$100k cliff with a gradual phase-out., perhaps starting a bit earlier
- Create a young child CTC bonus (under age 6 or so), separate from the federal program

Key Takeaways

- Oklahoma can spend wisely while strengthening families.
- **Refundability is essential** to reach intended families and support work
- Other states — including conservative peers — have modernized their CTCs successfully
- Research shows refundable credits **reduce poverty, encourage work, and improve children's outcomes**
- A refundable CTC is fiscally responsible, pro-family, and pro-work