How Do State Child Tax Credits Affect Employment and Poverty?

By Matthew Unrath, Nathan Tollett, Jacob Goldin, Tatiana Homonoff, Neel Lal, and Katherine Michelmore*

Among advanced economies, the United States boasts one of the highest child poverty rates, yet remains one of the few countries without an unconditional child allowance (OECD, 2024; Waldfogel, 2025). The closest U.S. equivalent, the federal Child Tax Credit (CTC), provides no support to parents without earnings and only limited assistance to those with the lowest earnings (Goldin and Michelmore, 2022). At the same time, a growing number of states have introduced their own child tax credits, partly filling this gap in federal policy. State programs tend to differ from the federal credit in three important ways. First, most states target benefits to low- and middle-income households, whereas households with annual incomes up to $400,000 can claim the federal credit. Second, eleven states offer unconditional credits, meaning families can receive the benefit even if they have no labor income and owe no state income taxes, whereas the federal credit is only partially refundable and therefore available only to parents with positive earnings.[1] Third, nine states restrict eligibility to parents with young children or provide such parents with larger benefits, whereas the federal credit amount does not depend on eligible children's ages.

This paper projects the employment, poverty, and fiscal effects of introducing an unconditional child allowance for families with young children, modeled after the unconditional state CTCs adopted so far, in the states without such a program.[2] We show how outcomes vary with two key policy parameters: the benefit size and phaseout range. We use survey data to identify eligible households, determine how the policy shapes parents' work incentives, identify the share of parents who will stop working given the change in these incentives, and then recalculate all eligible households' poverty status given simulated employment changes and receipt of the new credit.

Consider a credit worth $1,000 per child phasing out at $50,000 of income for a single filer. Our micro-simulation analysis suggests that such a policy would reduce poverty among children younger than age six by 6.3 percent and deep poverty by nearly 10 percent. The analysis suggests that at most 0.6% of working parents with young children would exit the labor force. Employment and poverty effects scale nearly in proportion to the size of the credit and phaseout. Raising the phaseout increases the employment impact, but only modestly affects poverty. If adopted in all 39 states and DC, the policy would raise 148,000 young children out of poverty, lead 80,600 (out of 14.4 million) working parents to exit the labor force, and would have an annual cost of $11 billion.

I. Background

Our approach to modeling the effects of introducing an unconditional state child tax credit is similar to the procedure used by Goldin, Maag and Michelmore (2022), Bastian (2024), and Corinth et al. (2021) to predict the effects of the 2021-era reform to the federal CTC. One important difference are the elasticities we use to model eligible parents' labor supply responses. While prior studies use elasticity estimates largely drawn from studies of Earned Income Tax Credit (EITC) expansions, we rely on new evidence on employment responses to recent state child tax credits.

Goldin et al. (2024) study maternal employment responses to six recently enacted state child tax credits. These credits were generally targeted at low- to middle-income families with annual benefits ranging from $500 to $1,200 per child. They varied, however, in whether they conditioned eligibility on work. To identify how each program affected maternal labor supply, the authors used

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[1] States with unconditional credits as of 2025 are: California, Colorado, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New Mexico, New York, Oregon, and Vermont (National Conference of State Legislatures, 2025).

[2] Five states (Arizona, Georgia, Idaho, Oklahoma, and Utah) offer a nonrefundable credit. Illinois provides a refundable credit based on the EITC, so eligibility is tied to work. Our simulations layer a new credit on top of these existing policies.

variation in mothers' exposure to the policies induced by quasi-random variation in the timing of their children's births—in all six states, children who turn six just after the end of the tax year are eligible for the credits whereas those who turn six just prior to the end of the year are not. Using this regression discontinuity design and administrative tax data, the authors rule out effects on maternal labor force participation greater than 0.3 percentage points. The authors then calculate the labor supply elasticities implied by mothers' employment responses and the policies' effect on their work incentives. Using the reforms that did not condition eligibility on work (Maryland, New Jersey, Oregon, Vermont, post-2022 California), they estimate an extensive margin substitution elasticity for mothers of 0.048 and an income elasticity of -0.018.[3]

Our core claim is that these elasticity estimates – based on similar and more recent reforms – are a more reliable guide for predicting the employment responses to a targeted state child allowance than those based in the EITC literature for three reasons. First, the most cited EITC studies focus on eligibility expansions that occurred in 1993. Over the last three decades, female labor force participation has changed dramatically; it would be surprising if the nature of female labor force participation decisions was unchanged. Second, the policies affect different populations: the EITC encourages work for the lowest-income and non-working adults, whereas unconditional child benefits reduce the return to work particularly for those with incomes above the phaseout. Tax incentives may be less likely to affect labor force participation decisions among middle- and high-income workers compared to those with no or very low earnings. Third, if federal tax policy is more salient than state policy, behavioral responses to state tax incentives may be smaller.

II. Analysis

We simulate the employment, poverty, and fiscal impacts for a state child tax credit that is available to low- and middle-income parents with at least one child under age six. We simulate effects for three different credit amounts ($500, $1,000, and $2,000 per child) and phaseouts starting at three different earnings levels ($25,000, $50,000, and $100,000). Each credit has the same benefit reduction rate (5%), and we double the phaseout starting points for married couples. Figure 1, Panel A illustrates the the credit's value by household earnings and the two policy parameters.

The credit generates distinct extensive-margin work incentives for parents who differ in how much they would earn if working. If earnings would fall below the start of the phaseout, the credit generates an extensive-margin *income* effect, in that it raises individuals' baseline after-tax income whether or not they work. If earnings would be above the start of the credit's income phaseout, the credit generates a negative extensive-margin *substitution* effect—the credit increases the after-tax income associated with not working compared to working. Individuals whose earnings would be within the phaseout face both an income and substitution effect. They are eligible for some new credit whether they work or not, but could claim a greater credit if they stopped working.

We predict employment responses within the three groups exposed to these distinct incentives. Expected extensive margin employment effects are given by the size of the relevant labor force multiplied by the change in return to work (or the change in post-tax and transfer income assuming no earnings) induced by the policy and the relevant extensive margin labor supply elasticity:

$$\text{Substitution Effect: } \Delta \text{ Emp} = N_S \times \Delta\text{RTW} \times \eta_S$$
$$\text{Income Effect: } \Delta\text{Emp} = N_I \times \Delta\text{BNW} \times \eta_I$$

where N_S is the size of the eligible working population exposed to the substitution effect, N_I is the size of the eligible working population exposed to the income effect, ΔRTW is the average percent change in the return to work, ΔBNW is the average percent change in benefits received when not working, and η_S and η_I denote the substitution and income elasticities, respectively.[4]

[3]These substitution elasticities are an order of magnitude smaller than the consensus extensive margin elasticities to federal reforms (McClelland and Mok, 2012). Bastian (2024) uses a substitution elasticity of 0.4, while Corinth et al. (2021) select 0.75.

[4]The assumption of a constant income elasticity may inflate our predicted income effects; in reality, a change in benefits when not working from $500 to $1,000 may not generate the same employment effect as a change from $5,000 to $10,000. For

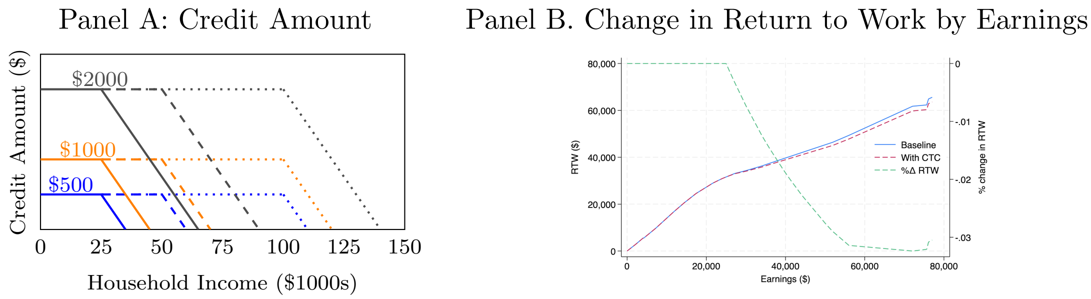

Fig. 1— Simulated Policy Effects on Credit Amount, Post-Tax Income, and Return to Work

Notes. Panel A illustrates the value of each credit design by household income for a single parent with one child. The blue, orange, and gray lines show the value of the $500, $1,000 and $2,000 credit per child, respectively. The solid, dashed, and dotted lines show the value of the credit with a phaseout starting at $25,000, $50,000 and $100,000, respectively. Panel B illustrates the simulated return to work by household earnings with (dashed red line) and without (solid blue line) a $1,000 per child credit phasing out at $25,000. The green dashed line shows the percent change in the return to work.

We identify the number of potentially affected workers in each state using the American Community Survey (ACS).[5] The eligible population is equal to the weighted count of ACS adults (age 25-65) with an eligible child.[6] We do not restrict our sample based on parents' current earnings. This means that parents with earned income above the end of the phaseout range can still choose to stop working in our simulations. To the extent that this population is unlikely to stop working, our dis-employment estimates represent an upper-bound.

For each parent, we calculate how the credit changes their work incentives. The return-to-work (RTW) is defined as the difference in income one would receive when working compared to not working, accounting for pre-tax income, federal and state income taxes, and SNAP benefits. The percent change in the return-to-work is given by: $\%\Delta$ RTW $= \frac{RTW(1)-RTW(0)}{RTW(0)}$, where $RTW(1)$ and $RTW(0)$ denote the RTW assuming availability of the credit or not.[7] The change in the benefits from not working (BNW) is given by: $\%\Delta$ BNW $= \frac{CTC}{Income(0)}$, where $Income(0)$ denotes post-transfer income assuming no earnings and no credit.

We rely on estimates of labor supply elasticities estimated by Goldin et al. (2024). For all parents, we use 0.048 as the substitution elasticity, η_S, and -0.018 as the income elasticity, η_I.[8]

Next, we measure the policy's impacts on the poverty rate among eligible children according to the Supplemental Poverty Measure (SPM).[9] Static effects on poverty are defined as the proportion of households whose SPM resources are newly raised above their respective threshold after adding the value of the new benefit. The dynamic effect accounts for employment responses. We simulate this effect by zeroing out earnings for a share of workers consistent with aggregate employment effects, adjusting these families' tax liabilities and SNAP benefits, and recalculating their poverty status.

individuals who do not qualify for much in SNAP benefits, the implied percentage change in benefits from not working can be quite large even if the actual dollar change is modest.

[5]We repeated our analysis using the Current Population Survey Annual Social and Economic Supplement (CPS ASEC); results are not meaningfully different.

[6]We exclude the few mothers whose marital status is separated, because they are typically ineligible for these credits.

[7]We calculate this value for all households with income above the starting point of the phaseout. To do so, we estimate federal and state taxes (including refundable tax credits) using NBER's TAXSIM program given each worker's current earnings and then assuming they stop working. We calculate SNAP benefits according to household size, income, and the federal benefit formula. We disregard the value of other transfer programs, because take-up of those benefits tends to be low.

[8]Goldin et al. (2024) evaluated employment responses only among mothers. Fathers' labor supply elasticity is typically assumed to be smaller. Using the same value for both groups implies our estimated employment effects an upper-bound.

[9]The SPM resource definition includes in-kind transfers and tax liabilities, whereas the Official Poverty Measure (OPM) only considers money income (Shrider and Bijou, 2025). SPM thresholds are based on the 33rd percentile of consumer expenditures for basic expenses, adjusted for family size, housing tenure, and geographic cost-of-living (U.S. BLS, 2025). We use an experimental ACS file containing SPM variables (Fox, Glassman and Pacas, 2020).

We also identify the effect on deep poverty, defined as 50% of each household's SPM threshold.

Finally, we calculate the policy's dynamic fiscal effect, which includes the direct cost of program outlays plus the indirect cost of state income taxes not collected due to employment reductions.[10]

III. Results

Figure 2 summarizes the predicted effects for each outcome: parental employment, rates of poverty and deep poverty for young children, and the total fiscal cost. A policy providing a $1,000 credit to each eligible child and a phaseout starting at $50,000 would reduce the poverty rate among children younger than age six by 6.3 percent (a decrease of 148,000 children) and deep poverty for the same population by 9.9 percent. The policy would result in 0.6 percent of eligible working parents (80,600 of 14.4 million) leaving the labor force nationwide. Altogether, expanding this benefit nationwide would cost about $11 billion a year. For individual states, costs range from $23 million per year in DC to $1.1 billion per year in Texas.

Doubling the credit amount raises the employment and poverty effects by roughly the same factor. A higher phaseout also increases labor force exit, since more parents face the larger income effect. Increasing the phaseout ranges only modestly affects poverty since the selected phaseout values exceed the SPM thresholds for the vast majority of survey households. Doubling the credit amount increases fiscal effects by slightly more than 100 percent due to larger employment reductions.

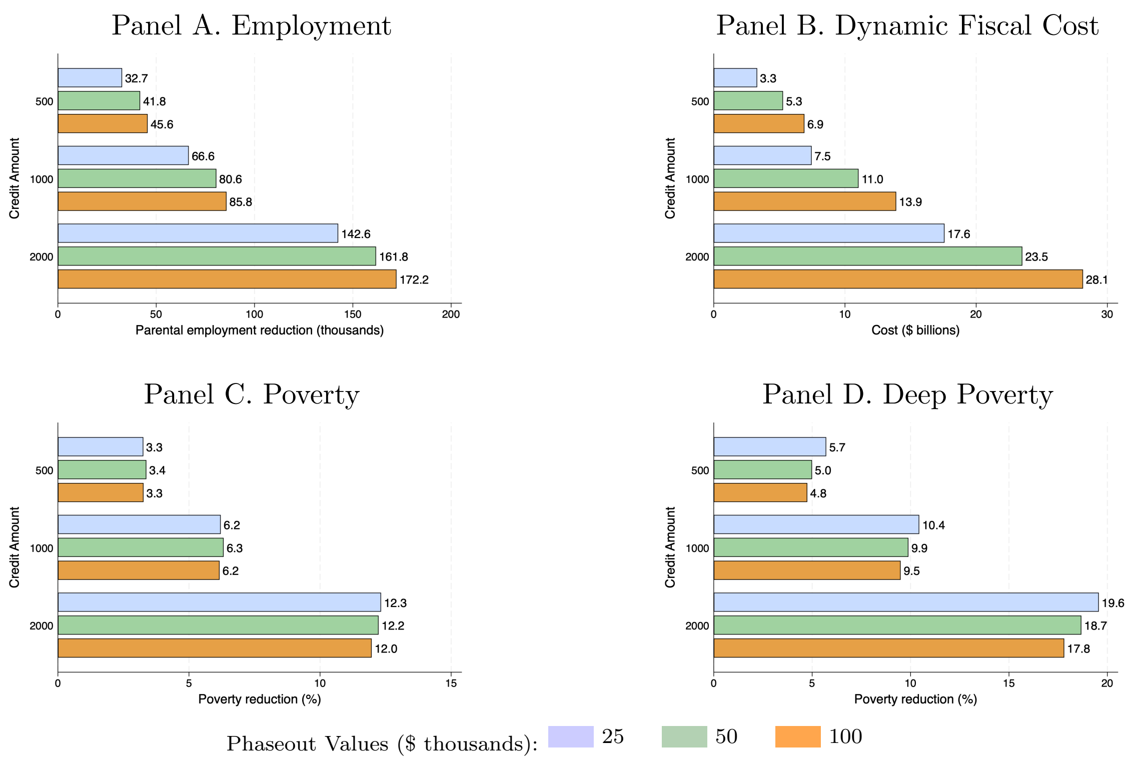

Fig. 2— Employment, Poverty, and Fiscal Effects of Fully Refundable State-Level Child Tax Credit

Notes. The figure summarizes the simulated employment, anti-poverty, and fiscal effects. Within each panel, bars are grouped by the per-child credit value: $500, $1,000, and $2,000. Blue, green, and orange bars indicate effects that begin phasing out for single parents at $25k, $50k, and $100k of income, respectively.

[10] A large and growing body of research finds that transferring resources to children growing up in poverty can yield numerous beneficial fiscal effects (National Academies of Sciences, 2019; Aizer, Hoynes and Lleras-Muney, 2022). By ignoring the public's return on these investments, our estimated fiscal effects are likely an upper bound on the the true cost.

IV. Discussion

Our results suggest that the labor market consequences of expanding the generosity of child benefits to very low-income and non-working families would be less than what would have been predicted on the basis of most prior research, and largely driven by income effects.[11] Our results also highlight the important impact that even modest state credits can have on child poverty.

This exercise is replicable for any individual state considering such a program. Using the code available in our online appendix, one need only apply the appropriate restriction to the ACS or ASEC sample in order to identify the same outcomes for a given state or set of states.

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[11] Our results are consistent with empirical work studying the effects of the temporary 2021 CTC expansion (Enriquez, Jones and Tedeschi, 2023; Pac and Berger, 2024; Ananat et al., 2024; Lourie et al., 2025).