Hawai‘i Budget & Policy Center

INVESTING IN OUR FUTURE: A KEIKI CREDIT FOR HAWAI‘I

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The Hawai‘i Budget & Policy Center is a program of Hawai‘i Appleseed Center for Law & Economic Justice.

Our mission is to ensure that our state and local economic policies increase opportunity for all residents. We do this by analyzing and understanding the implications of tax and budget decisions and making sure that the public and policy-makers are informed through strategic communications, coalitions, and key partners.

HBPC's work is guided by the belief that government at all levels should play an active role in helping people reach their full potential.

TAX CREDITS for working families—like the Child Tax Credit and Earned Income Tax Credit—can serve as lifelines to children and families with the lowest incomes and greatest needs. Over the long-term, these credits can reduce racial and economic inequities and have a dramatic impact on children's outcomes. In fact, these tax credits have been found to improve child and maternal health and school achievement.

Recognizing the success of the federal child and earned income tax credits, a growing number of states—including Hawai‘i—have adopted their own state-level credits. Having strengthened our state's Earned Income Tax Credit (EITC) in 2022, Hawai‘i lawmakers now have the opportunity to create a proven, complementary state-level Child Tax Credit (CTC). Twelve other states have already created separate CTC programs for their residents.

This report examines the impact that a state-level Child Tax Credit would have on Hawai‘i's children and families, drawing in part from the growing body of research supporting the federal credit, which reduced poverty by 40 percent between 2020 and 2021. Based on these findings and other state policy approaches, the Hawai‘i Budget & Policy Center recommends the creation of a state-level CTC—or "Keiki Credit"—that would make raising a family in Hawai‘i more affordable, especially for those with low incomes.

We propose three options for a state CTC, costing between $84 million and $130 million. Working in concert with Hawai‘i's newly refundable EITC, a Keiki Credit would help Hawai‘i's families meet the unique challenges associated with raising a family in Hawai‘i where households face increasingly higher costs for housing, food, fuel and child care. Furthermore, the creation of a Hawai‘i Keiki Credit would represent a key investment in our future generations that will set them up for economic success throughout their lives.

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THE COST OF POVERTY ON HAWAIʻI'S KEIKI

Children raised in economically secure homes fare better throughout their lives and are able to contribute more to society. Research confirms that they enjoy better health, achieve higher rates of educational attainment, earn higher wages, and build up more resources for retirement. One recent study shows the remarkable gains in brain development for infants in low-income families that benefited from an extra $300 per month. These benefits include lifelong improvements in language capacity and cognitive, social and emotional skills.[1]

Unfortunately, in Hawaiʻi tens of thousands of children live in families that are struggling to make ends meet. In 2019, nearly one in three families with children under the age of 18 lived in low-income working families with annual incomes below 200 percent of the federal poverty level. Single-parent families headed by a mother make up more than a quarter of all Hawaiʻi families, and are four times more likely to live in poverty.[2]

Making matters worse, Hawaiʻi's children face a high and growing level of food insecurity. Between June of 2020 and June of 2022, the U.S. Census Bureau's Household Pulse Surveys for Hawaiʻi reported that between 39,000 and 67,000 households with children occasionally or often did not have enough food to eat—and the numbers are increasing. There were 41,741 households reporting insufficient resources for food in June of 2020, growing to 61,166 by June of 2022.[3]

These economic challenges are not distributed equally across ethnic groups. As shown in **Table 1**, Native Hawaiian, Pacific Islander and Filipino households are more likely to include children under the age of 18 and have lower incomes. This combination of higher household expenses due to the presence of children, as well as lower median earnings, can make the economic pressure of raising a family in Hawaiʻi particularly acute for these populations.

While a variety of social programs exist to help low-income families meet their basic needs, refundable tax credits like the Child Tax Credit are especially effective and can help families build economic security in the short- and long-term. Given the success of the expanded federal CTC in reducing child poverty, a state CTC could provide critical support to Hawaiʻi's children.

Table 1. Economic characteristics of families with children by race/ethnicity

	White Alone	Filipino Alone	Japanese Alone	Native Hawaiian and Pacific Islander Alone
Median Earnings (Male)	$71,919	$49,580	$71,865	$51,129
Median Earnings (Female)	$62,261	$41,131	$58,990	$41,723
Percentage of Population Aged 0–4	3.50%	3.80%	1.70%	7.40%
Percentage of Population Aged 5–17	10.50%	14.80%	5.00%	20.00%
Poverty Rate for Families with Related Children under 18	12.40%	7.60%	8.80%	17.60%

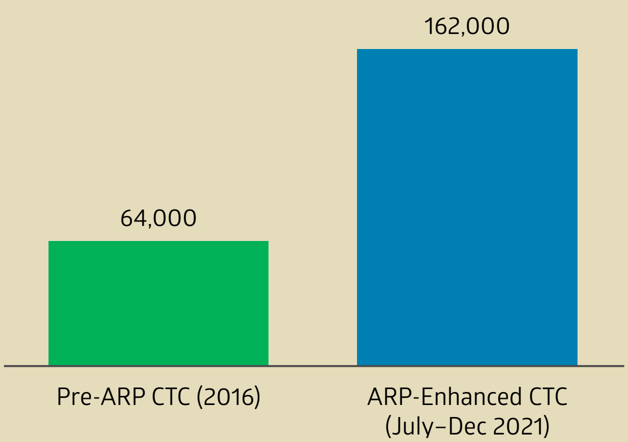
Table 1. Native Hawaiian and Pacific Islander households and families were more likely to have children under the age of 18 and to report fewer economic resources than other households in Hawaiʻi (2021).[4]

HOW THE FEDERAL CHILD TAX CREDIT HELPED HAWAI'I'S CHILDREN

In 2021, congressional lawmakers expanded the federal CTC through the American Rescue Plan (ARP). By including the poorest families, who previously received little or no benefit, the CTC expansion reduced poverty by a staggering 40 percent between 2020 and 2021. Across the U.S., more than 2.9 million children were lifted out of poverty during this time.[5] The impact was even greater for communities of color, as poverty rates for Black and Hispanic children fell by 56 percent and 49 percent, respectively.

In Hawai'i, the federal CTC expansion put an average of $2,426 into the hands of workers paid low wages over six months.[6] Between July and December of 2021, 162,000 Hawai'i families with 272,000 children benefited from the expanded federal CTC. In comparison, only 64,000 Hawai'i families received the federal CTC in 2016.[7]

Figure 1. Hawai'i families receiving CTC benefits



According to analysis from the Urban Institute, had the CTC expansion been made permanent, child poverty in Hawai'i would have been reduced from 9.8 percent to 5 percent if measured by the Supplemental Poverty Measure (SPM). The SPM takes into account cash transfers like tax credits and is regarded as a more accurate picture of real poverty, especially in high-cost states like Hawai'i. This would have represented a nearly 50 percent reduction in the incidence of child poverty in our state.[8]

The substantial positive effects of the federal CTC expansion on families resulted from several key improvements to the credit. First, the amount of the CTC was increased to $3600 for children ages 0–5, and $3000 for children aged 6–17. Next, for the first time, families were allowed to claim the credit for 17-year-old children. Lastly, and perhaps most important of all, families paid low wages and people with high barriers to employment were able to benefit from the full CTC because it was made fully refundable, regardless of income.

Refundable child tax credits are an effective form of government assistance because they fill the gaps left behind by other programs, deliver aid to the families that need it most, and eliminate barriers to access by paying families directly through the tax system. Ensuring that families with little to no income can claim the same credit amount as higher-paid families will make Hawai'i's tax system more fair.[9]

In addition to these changes, benefits from the expanded CTC were paid out to families on a monthly basis instead of only once a year when tax returns were filed. This led to immediate poverty reductions for children. Among families with incomes below $35,000, more than 90 percent of their CTC funds went to food, utilities, rent or mortgage, clothing, and education costs, according to Census Bureau survey data.[10]

Sadly, once the expanded federal CTC was phased out at the end of 2021, its groundbreaking impact on child poverty began to disappear. Food insecurity among U.S. households with children increased by a staggering 25 percent between January and July of 2022.[11]

HOW A KEIKI CREDIT WOULD INCREASE ECONOMIC SECURITY FOR FAMILIES WITH CHILDREN

Creating a Keiki Credit for Hawaiʻi's families would help them to cope with the rising costs of housing, food and other necessities in our state, and to plan long-term for their children.

Overall, a state-level child tax credit could reach up to 176,000 children and 168,000 adults in Hawaiʻi, primarily benefiting low- to middle-income families. Currently, 12 other states have created their own state level child tax credits that complement the federal CTC and EITC (see Appendix A for a state-by-state analysis).

Below, we outline three proposals for structuring a Hawaiʻi state Keiki Credit. Proposal 1 is based on a $650 credit for each child under the age of 18. Proposal 2 contains a $1,000 credit for each child aged 0–5 and a $500 credit for each child aged 6–17. Finally, Proposal 3 puts forward a $1,000 credit for each child under the age of 18.

All three proposals assume that the credit will be fully refundable and would begin to phase out once a taxpayer reaches $40,000 in earnings. After the $40,000 earnings threshold, the credit would decrease by 10 percent for each $7,500 in additional earnings, up to a maximum income of $115,000 annually.

Each proposal would provide tax cuts to Hawaiʻi residents across all income brackets, with the largest tax cuts going to those with lower incomes. Structuring the credit this way would ensure that economic relief is targeted to families who need it the most, with around 97 percent of the benefits being accrued by the bottom 80 percent of qualifying households.

	Credit Amount	Cost
Proposal 1	$650 per child 0–17	$84 million
Proposal 2	$1,000 per child 0–5; $500 per child 6–17	$93 million
Proposal 3	$1,000 credit per child 0–17	$130 million

Table 2. Average projected tax cut for Hawaiʻi residents receiving state CTC by income bracket (2023)

Income Bracket	Bottom 20%	20–40%	40–60%	60–80%	Next 15%	Next 4%	Top 1%
Income Thresholds	$0–$25,000	$25,000–$52,000	$52,000–$84,000	$84,000–$135,000	$135,000–$270,000	$270,000–$626,000	$626,000 and Above
Proposal 1	$979	$1,200	$662	$340	$399	$252	$130
Proposal 2	$994	$1,403	$759	$343	$359	$256	$100
Proposal 3	$1,507	$1,846	$1,018	$523	$614	$388	$200

Table 2. In each of the CTC proposals, the largest tax cuts would be delivered to residents within the 20 percent to 40 percent income bracket, followed by those in the bottom 20 percent. This phase-out would ensure that economic relief is targeted to families that need it the most, with about 97 percent of the benefits going to the bottom 80 percent of residents. In total, 15–20 percent of all Hawaiʻi taxpayers earning less than $135,000 would benefit from these state CTC proposals.

RECOMMENDATIONS TO MAXIMIZE THE EFFECTIVENESS OF A HAWAIʻI KEIKI CREDIT

In order to effectively structure the credit so that it reaches households with lower incomes, policymakers should also take into account the following recommendations:

- **Provide a larger tax credit** for children under the age of five with a lesser amount for children up to age 18. Research confirms that, for a low-income family, an economic boost contributes to infant brain and social development. The change proposed here would confer the greatest lifetime benefits to the youngest children while still supporting the needs of older children.

- **Make the credit fully refundable** and make it available regardless of income. Although the federal CTC is worth up to $2,000, only $1,500 of the credit is refundable. Additionally, you must have at least $2,500 in annual earnings to qualify for the federal CTC. The poverty reduction effects of the expanded CTC are likely due to the expanded credit being made fully refundable, regardless of income, so all families could take full advantage of the credit.

- **Target benefits to the lowest income households** by phasing out eligibility for the credit as income rises. Similar to refundable credits like the EITC, a state-level child tax credit should phase out as income rises, so that benefits are targeted to the lowest income households. Lawmakers should consider capping eligibility entirely at or around 300–400 percent of the federal poverty level for a family of four.

- **Ensure migrant and immigrant families benefit**. Hawaiʻi should provide state tax credits for immigrant families whose children do not have Social Security Numbers (SSN). Families should be allowed to supply their individual taxpayer identification number (ITIN) in place of an SSN.

- **Consider paying for the cost of a Keiki Credit**, either partially or fully, through taxing long-term capital gains at the same rate as ordinary income. Some 85 percent of this total tax increase would fall on Hawaiʻi residents with incomes in the top 1 percent, and it would generate an estimated $88 million to $132.3 million in revenue for the state.

APPENDIX A: HOW OTHER STATES ARE CRAFTING TAX CREDITS FOR CHILDREN

Evidence from the experience of the federal Child Tax Credit offers ample support for an expanded credit that would reach many more children and families with low incomes. The findings also point to ways states can and are creating or improving their own child tax credit programs. According to the National Conference of State Legislatures (NCSL), 12 states already have a child tax credit:[12]

State	Amount	Refundable	Eligibility
California	Up to $1,000 per qualifying family. Maximum for families earning <$25,000 and reduced amount if income is $25,000–$30,000.	Yes	Child must be <6. Must qualify for California EITC. Maximum household income is $30,000.
Colorado	5–30% of federal CTC per child, depending on income and filing status.	Yes	Child must be <6.
Connecticut	Up to $250 per child up to a total of $750. Phased out as income increases.	Yes	Upper household income limit is $200,000 for taxpayer filing jointly.
Idaho	$205 per qualified child.	No	Definition of "qualified child" same as IRC (section 24(c)).
Maine	$300 per qualified child and/or dependent.	No	
Maryland	$500 per child.	Yes	Child must be <17 and have a disability. Taxpayer federal AGI must be $6,000 or less.
Massachusetts	$180 for 1 dependent, $360 for 2 or more. (Taxpayers may elect to take a tax credit for dependent care expenses instead.)	Yes	Dependents are defined as children <12, adults 65 or older, or anyone with a disability.
New Jersey	Up to $500 per child.	Yes	Child must be <6. Amount decreases as taxpayer income increases, up to $80,000.
New Mexico	Up to $75 to $175 per qualifying child, depending on income	Yes	Definition of "qualifying child" is the same as for federal income tax purposes.
New York	33% of federal CTC or $100 per qualifying child, whichever is greater. $100 per child available to households with income <$110,000 (filing jointly) that did not claim federal CTC.	Yes	Child must be at least 4 and meet qualifications for federal CTC. If federal CTC not claimed, child must meet eligibility criteria.
Oklahoma	5% of federal CTC. Alternatively, may take 20% of credit for child care expenses allowed under the IRS, whichever is greater.	No	Household income may not exceed $100,000 if filing jointly.
Vermont	Up to $1,000 per child.	Yes	Child must be <5. Full TC for household income <$125,000. Phase out for higher incomes

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