

# CHILD TAX CREDITS



**Child tax credits allow families with children to keep up with rising costs including expenses like housing, food, transportation, and child care. A handful of states across the country offer a child tax credit or family tax benefit.<sup>1</sup>**

## **Child tax credits:**

- **Strengthen families and increase self-sufficiency**
  - Child tax credits are known to increase educational attainment, result in higher wages when children grow up, improve mental health, reduce child maltreatment and result in less involvement from child protective services and the criminal justice system, as well as increase economic self-sufficiency.<sup>2</sup>
- **Have a positive return on investment**
  - Every dollar invested in children provides \$10 in benefits.<sup>3</sup>
- **Reduce financial stress among parents, allowing them to work and provide for their families**
  - Child tax credits result in positive impacts on the health of parents and children, as well as better learning outcomes for children.<sup>4</sup>
  - 76% of surveyed parents across the United States reported the 2021 expanded Child Tax Credit reduced their financial stress.<sup>5</sup>
  - When parents face fewer financial burdens, they are also more likely to stay in a healthy, strong marriage and choose to have children.<sup>6</sup>
- **Support parents with the costs of raising a child (especially with rising inflation)**
  - Economists agree that child tax credit payments are a “proven success at helping families keep up with everyday costs.” Child tax credits do not contribute to inflation.<sup>7</sup>
  - Help families keep up with the rising cost of food.
  - 86% of families in Montana have used other tax credits for basic needs like food or rent, as well as education.<sup>8</sup>
- **Raises children out of poverty while strengthening economic self-sufficiency and increasing work participation among parents**
  - In 2021, the expanded Child Tax Credit lifted 2.9 million children out of poverty.<sup>9</sup>
  - In a six-month span, the temporary Advanced Child Tax Credit cut the country’s childhood poverty rate in half while still encouraging parents to work and be productive.<sup>10 11</sup>

## **Who do child tax credits help?**

Child tax credits can help families at many income levels depending on how the tax credits are structured and who they target. The most impactful credits are distributed monthly, in higher amounts to families with young children, are refundable, and include a phase out. Refundable refers to making the credit fully available to all households with eligible children, independent of their earnings. A phase out adjusts the amount of the credit at increments as the family's income rises, rather than setting an income cap where even a few dollars over would disqualify the family from the credit.

## In Montana:

- 37% of Montana children birth to age 8 lived in a low-income family in 2022.<sup>12</sup> (In 2023, a two-parent, two-child household with income below \$60,000 per year would fall into that category.)<sup>13</sup>
- 33% of Montanans live in rural areas.<sup>14</sup> Parents in rural areas may not have the same economic or work opportunities as parents in other parts of the state and are more likely to also have lower wages – they are less likely to receive the federal child tax credit because it phases in based on income and is not refundable.<sup>15</sup>

## Recommendations:

- **Establish a Montana Child Tax Credit:** Policymakers could enact a child tax credit for families with children under the age of 5 to help families manage rising costs. Similar legislation was proposed in 2023 with House Bill 268 that would have established a refundable \$1,200 child tax credit for children under the age of 5 through the individual income tax.

## Do Montanans support child tax credits? Yes!

- In a 2024 Zero to Five Montana poll of registered voters, **75% of respondents said they support Montana state government reducing the cost of child care by providing tax credits to families with children.** (This result is up 11% from from the same polling question in 2022.)
- **71% of respondents agreed tax credits help parents offset the cost of raising a child.**



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