

To: House Committee on Ways and Means

From: Julie Lowell, Public Assets Institute

Date: January 12th, 2024

Re: JFO 12/5/2023 Issue brief, “Vermont Child Tax Credit: A one-year lookback”

Following up on my testimony to the House Ways and Means Committee on Thursday January 4, 2024, below is a list of questions that would help us better understand how Vermont households with the lowest incomes are accessing Vermont’s Child Tax Credit (CTC).

For the CTC to be an effective anti-poverty tool, families with the most need must receive the credit. But families with the lowest incomes are not required to file taxes. By better understanding what families are and are not accessing these credits, and how they are accessing them, the state can create informed outreach plans to better ensure that all eligible households are applying for and receiving the full credit they are entitled to. It’s critical that this type of analysis is done annually to ensure access, particularly with the expansion of the CTC to all Vermont residents in tax year 2023.

Question 1: What percentage of families with the lowest incomes are accessing the credits? How does this compare to credit uptake rates at various income levels?

The Joint Fiscal Office’s “Vermont Child Tax Credit: A one-year lookback” reports that in tax year 2022, over 21,000 families received Vermont’s Child Tax Credit. This is around 6,000 fewer filers than JFO estimated would receive the credit ([H.510 Fiscal Note, 7/16/2022](#)).

By comparing tax return data to other administrative and survey data, we can learn more about how many people are not applying for Vermont’s CTC and how this differs by income levels. Because households with the lowest incomes do not have to file tax returns (married filing jointly households with gross income under \$25,900 and head of households under \$19,400 in [tax year 2022](#)), it’s likely that this group may not be claiming the credit.

Some administrative and survey data to explore a comparison with tax return data include:

- Medicaid data, looking at the number of children under six receiving Dr. Dynasaur. These data may be best compared to tax return data broken down by poverty level, including a category of zero income.

[The IRS identifies](#) eligible filers living in rural areas as one group less likely to receive the Earned Income Tax Credit (EITC), a refundable credit for workers with low to moderate income. Dr. Dynasaur data may also be used to look at CTC uptake for households with low incomes by regions of the state.

- Reach Up administrative data looking at the number of children under six in a household receiving the maximum Reach Up benefit compared to the number of children in households with zero income or less receiving the CTC.

- American Community Survey data estimates on the number of children under six in households by various income bands, including a category of zero income (see example in [“H.510: VT Child Tax Credit”](#) JFO 1/6/2022 testimony).
- IRS [state statistics](#) from the 2021 federal expanded Child Tax Credit.

It would also be useful to better understand why families are not accessing the credits. This includes whether a filer who does not have to file their taxes at the federal level could open themselves up to additional tax liability at the state level.

Question 2: What percent of filers with lower incomes used paid providers? What percent of filers with low incomes accessed free filing resources?

JFO reports that 97 percent of the CTC claimants filed electronically – 20,431 filers. Of those electronic filers, 41 percent (8,387 filers) used a paid provider – this includes filers who paid someone to file their taxes, but not those who paid to use a filing software themselves.

The federal and state governments provide a number of opportunities for free assistance for low-income filers. These include the Volunteer Income Tax Assistance (VITA) program administered by Vermont Community Action Agencies, and free filing software programs. In 2022, households with around \$60,000 in household income qualified for VITA services, and households with up to \$73,000 in adjusted gross income qualified for free electronic filing programs.

However, [national research](#) has shown that paid preparers can cost EITC filers up to 10 percent of their full refund. Data on the number of CTC filers by income band who use a paid preparer, free filing services, filing software, and VITA services would help show how many filers in Vermont with low income receive their full credit.

As we get a better understanding of how many filers with lower incomes are using paid preparers, the state should also explore connecting Vermont’s state tax filing process to the new [IRS free direct e-file system](#) – a free and simplified option for Americans to do their taxes. The IRS is running this as a pilot in the 2024 filing season for twelve states, allowing filers to directly file with the IRS and their state. Vermont may be able to join that list of states in 2025, if they commit to some technical upgrades.