



Considerations on House Bill 675

March 21, 2018

A proposal before the Legislature seeks to amend the child tax credit that was created through recent legislation passed by both chambers and signed by the Governor. This analysis presents the effect of the revised credit amount proposed in House Bill 675 together with the provisions of House Bill 463 on Idaho families, as enacted. Key findings include that:

- The increased credit amount does not fully offset the tax increase on larger families that originates with full conformity with the federal tax code.
- The credit is not targeted to the larger middle-income families that are affected by conformity. Though the total cost of the revised child tax credit ranges from \$67.3¹ million to \$71 million, an estimated 38 percent of its benefits flow to the top 20 percent of earners, who are the least likely to face a tax increase due to conformity.
- Those families with the highest earners will generally experience tax cuts even in the absence of the child tax credit, largely due to the deep income rate cuts in House Bill 463.
- Because the child tax credit is nonrefundable, families that pay sales, property, and other taxes but don't have a large income tax bills are unable to claim much of its value.

Child Tax Credit Impact is Greater for Higher Earners, Smaller Families

Even with an increase in the child tax credit to \$205, families with five or more children will see an increase in state taxes, on average. For example, families with five children and two adults together earning between \$39,000 and \$63,000 will see an increase of \$198, on average, from the full tax package with the increased credit amount. A family in these circumstances earns more than poverty level, which is \$33,740, but would still be considered low-income, which is often defined as twice the poverty level.²

Some families with two, three, or four children will still see a tax increase that is relatively smaller than that for larger families, though that depends on the exact number of children and income group. Families with one child on the whole do not see increased taxes on average. Families with the highest levels of income benefit from the child tax credit, and this benefit is dwarfed by the tax cuts they receive from the income tax reductions in House Bill 463. See Figures 1, 2, and 3 to see how

¹ The low estimate is found by summing the cost of the original and revised credit from the fiscal notes for HB463 and HB 675. The high estimate was modeled by the Institute for Taxation and Economic Policy.

² U.S. Department of Health and Human Services, "U.S. Federal Poverty Guidelines."

Idaho families fare by income and number of children with the combination of House Bill 463 and House Bill 675.

Future Considerations

While the revised child tax credit partly addresses the family tax that originated with House Bill 463, long-term considerations remain.

The dependent exemption that was eliminated used to be adjusted annually to account for rises in the cost of living. The new child tax credit has been enacted at a fixed amount. The Idaho Legislature will have to decide whether and when to adjust the amount in future years to prevent the value of the credit to families from eroding.

The cut in income tax rates, the new pass-through business exemption, and the new child tax credit, among other tax changes, would now be combined with an increase to the child tax credit. This would dramatically change the long-term structure of Idaho's budget. Under the new structure, a certain level of economic activity will generate far less revenue than under the old structure. This will be especially true during economic downturns.

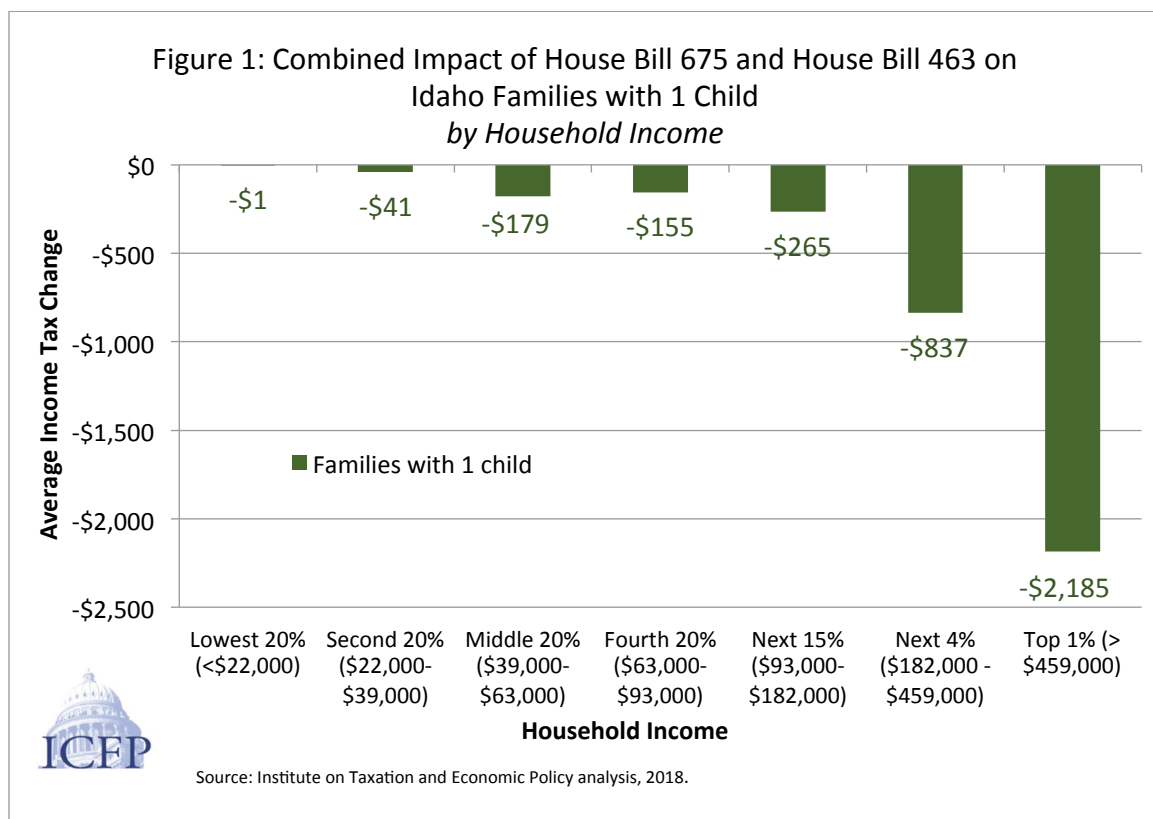


Figure 2: Combined Impact of House Bill 675 and House Bill 463 on Idaho Families with 2-3 Children
by Household Income

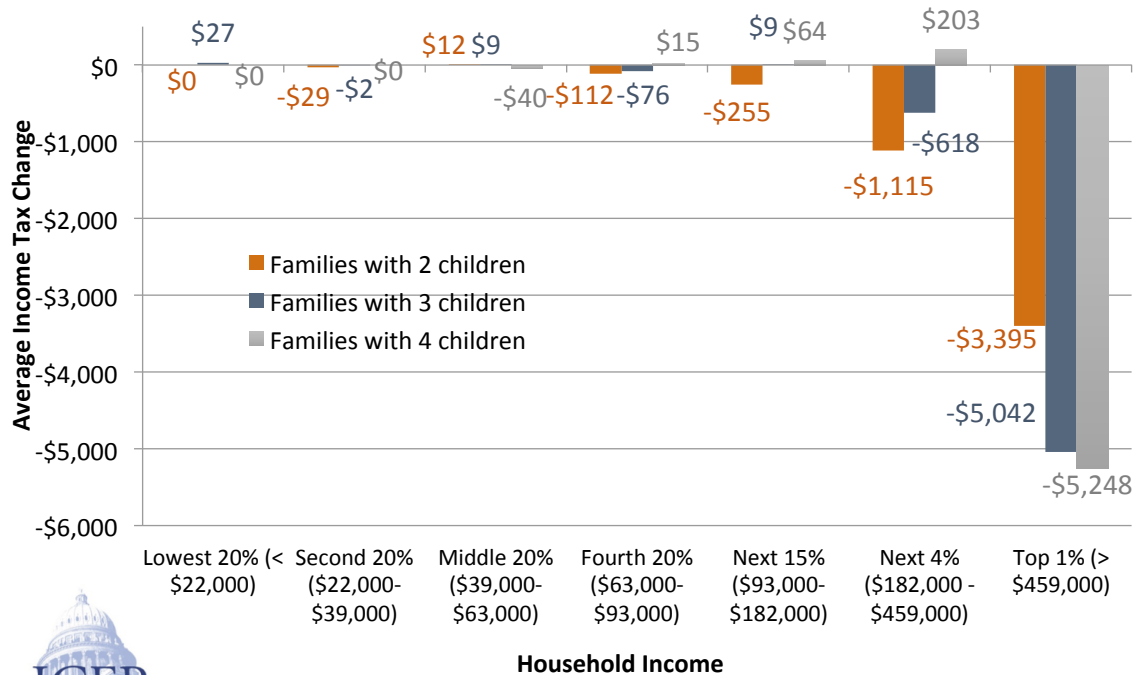


Figure 3: Combined Impact of House Bill 675 and House Bill 463 on Idaho Families with 5 or More Children
by Household Income

