

# A Stronger Foundation: How a Refundable State EITC Can Support Child and Workforce Development

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ISSUE BRIEF

## State Earned Income Tax Credit

The Earned Income Tax Credit is a refundable tax credit available to lower-income families to help offset living expenses. Due to low wages and the recent Great Recession, many working poor families are unable to meet their basic needs. Despite low wages, the Earned Income Tax Credit (EITC) allows families to keep more of their yearly earnings, and in 2013 helped over 6.2 million Americans rise above the Federal Poverty Level. The Earned Income Tax Credit has wide bipartisan support, and is shown as one of the most effective anti-poverty programs in the country.<sup>1</sup>

To strengthen the effect of the federal credit, twenty-five states and the District of Columbia offer refundable state Earned Income Tax Credits. State EITCs are modeled on the federal credit, making them easy to enact. As these credits are only available to working individuals, the EITC encourages work, helps families make ends meet, and reduces the burden of poverty.<sup>2</sup> With the income supplement they receive, families are better able to pay for transportation, childcare, and other expenses that allow them to work.

## Growing Up in Poverty Damages Healthy Child Development

For children growing up in poverty, the lack of financial security has lasting physical, mental, and behavioral consequences. Experiencing poverty during childhood is correlated with lower levels of academic achievement, poorer health outcomes, damaging levels of stress, and increased likelihood of reliance on public assistance. Early intervention is critical to preventing these outcomes<sup>3</sup>.

Of the estimated 290,000 children in South Carolina living in poverty in 2013, 113,000 were below age 6.<sup>4</sup> One-third of all children in South Carolina are growing up in poverty, higher than the national rate of 25%. Acknowledging and addressing the issue of poverty will have a positive immediate and long-term

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1 Center for Budget and Policy Priorities (2014). *Policy Basics: The Earned Income Tax Credit*. (2014). Washington, DC: Center on Budget and Policy Priorities

2 Center for Budget and Policy Priorities, 2014.

3 Radcliff, C. & McKernon, S. (2012). *Child Poverty and its lasting consequence*. Washington, DC: The Urban Institute.

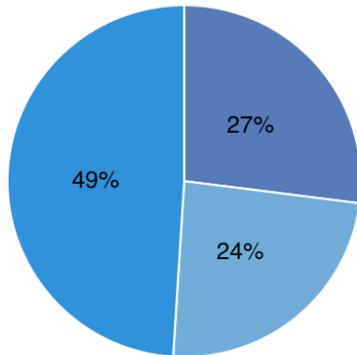
4 The Annie E. Casey Foundation KIDS COUNT Data Center, Indicators for South Carolina, Children in poverty, children in poverty by age group, 2013.

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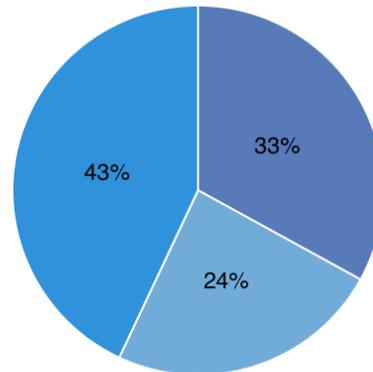
### Figures 1–4: Children in Poverty in South Carolina, 2013

**Figure 1: Poverty Levels of South Carolina’s Children, 2013**



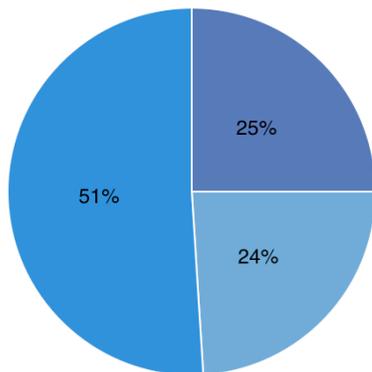
■ Under 100% FPL ■ 100% to 200% FPL ■ Above 200% FPL

**Figure 2: Poverty Levels of Children Under Age 6, 2013**



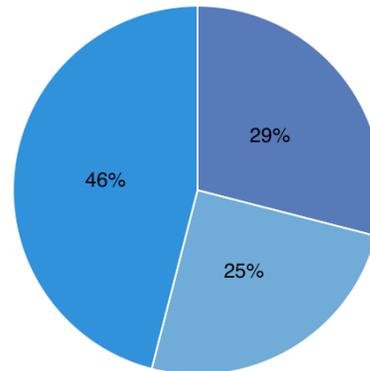
■ Under 100% FPL ■ 100% to 200% FPL ■ Above 200% FPL

**Figure 3: Poverty Levels of North Carolina’s Children, 2013**



■ Under 100% FPL ■ 100% to 200% FPL ■ Above 200% FPL

**Figure 4: Poverty Levels of Children Under Age 6, 2013**



■ Under 100% FPL ■ 100% to 200% FPL ■ Above 200% FPL

Source: National Center for Children in Poverty

impact for children in South Carolina. The poverty rates in South Carolina for all children and children under age 6 are shown in Figures 1 and 2; Figures 3 and 4 show these figures for North Carolina.

For a child, financial insecurity can be severely detrimental to healthy development. From infancy, these children are exposed to a web of stressors linked to poverty. Access to quality housing, food, education, and medical care are limited, and the constant exposure to the stress associated with the inability to meet basic

needs can negatively impact short and long term cognitive, behavioral, and social development. The scope of these issues in the Carolinas is shown in Table 1.

### HIGH COST OF HOUSING

The cost of living expenses is a significant factor in financial security. Working poor families are more likely to experience a high housing cost burden, defined as spending 30% or more of monthly household income on rent or other housing-related expenses. According to the U.S. Department of Housing and Urban Development, households with a high housing burden are less likely to meet other basic needs each

month; because affordability impacts housing choices, many cost-burdened families move frequently and often live in crowded, low-quality housing.<sup>5</sup> In 2013, 55% of low income children in South Carolina lived in homes with a high housing cost burden.<sup>6</sup> These children are more likely to be exposed to crime and environmental toxins and often have fewer safe places to play.<sup>7</sup> They are much less likely to complete high school than housing-secure peers.<sup>8</sup>

## FOOD-INSECURITY

1 in 5 children in South Carolina live in food insecure households, comparable to the national average.<sup>9</sup> Children without access to enough healthy food experience more chronic health problems, higher rates of hospitalization, and poorer academic performance than children in food-secure homes.<sup>10</sup> Food insecurity contributes to the family stress levels, which for pregnant mothers can lead to low infant birthweight<sup>11</sup> and for children can impact social behavior and anxiety levels in school.<sup>12</sup>

## TOXIC STRESS AND BRAIN DEVELOPMENT

Children living in poverty are met with additional adverse experiences, including households with higher rates of child abuse and maternal depression.<sup>13</sup> When children, especially infants and toddlers are exposed to the collective stressors associated with living in

**Table 1: The State of the Carolinas' Poor Children**

**In 2013...**

SC	NC	
51%	49%	of all children lived in low income families
33%	29%	of children under age 6 lived in poverty
16%	14%	of children under age 6 lived in extreme poverty
55%	58%	of low-income children lived in households with a high housing cost burden
42%	38%	of children lived in single parent homes
66%	69%	of low income 3 & 4 year olds did not attend preschool (2011-2013)
20%	24%	of children lived in food insecure households (2012)

Source: The Annie E. Casey Foundation KIDS COUNT Data Center, National Center for Children in Poverty, American Community Survey Table B17024

poverty, they are at greater risk for toxic stress, a permanent trauma to the brain. For young children, an inability to alleviate the great amounts of stress can inhibit the brain from developing executive functioning skills. These neural skills are responsible for impulse control, self-regulation, decision-making, and working memory,<sup>14</sup> and are the foundation for higher level reasoning, problem solving, and creative-thinking skills.<sup>15</sup>

Healthy brain development during early childhood is critical to a child's life outcomes. The intense, emotional burden of poverty and adverse experiences in childhood contribute to long-term social, physical and emotional effects. These children have increased likelihood of drug and alcohol abuse, unemployment, and an inability to provide supportive relationships necessary to prevent toxic stress for their children later in life.<sup>16</sup> Despite this, brain science shows early intervention reduces toxic stress, which could prevent future cost burdens to state and federal budgets.

5 Cunningham, M. (2012). *Housing as a platform for improved education outcomes among low-income children*. Washington, DC: Urban Institute.

6 The Annie E. Casey Foundation KIDS COUNT Data Center, *Children in Low-Income Households With a High Housing Cost Burden*, 2013.

7 Evans, G. W., & Kim, P. (2013). *Childhood Poverty, Chronic Stress, Self-Regulation, and Coping*. *Child Development Perspectives*, 7(1), 43-48.

8 Radcliff & McKernon, 2012.

9 The Annie E. Casey Foundation KIDS COUNT Data Center, *Indicators for South Carolina, Children living in households that were food insecure at some point*, 2012.

10 Nord, M. (2013). *Food insecurity in households with children: Prevalence, severity, and household characteristics*. U.S. Department of Agriculture, Economic Research Service.

11 Borders, A.E.B., Grobman, W.A., Amsden, L.B., & Holl, J.L. (2007). *Chronic stress and low birth weight neonates in a low-income population of women*. *Obstetrics and Gynecology*, 109, 331-338.

12 Nord, 2013.

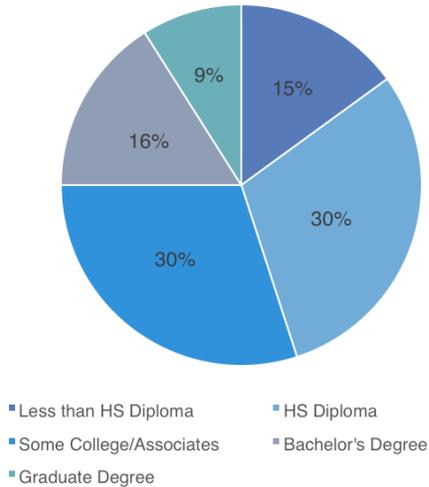
13 Shonkoff, J.P., Garner, A.D., et al. (2012). The lifelong effects of early childhood adversity and toxic stress. *Pediatrics* 129, e232-e246.

14 Ibid.

15 Diamond, A. (2013). Executive Functions. *Annual Review of Psychology*. 64:135-68.

16 Shonkoff, et al., 2012

**Figure 5: South Carolina Adult Education Attainment, 2011-2013**



Source: Table S1501, American Community Survey

## Intergenerational Poverty Threatens Economic Growth

Experiencing extended periods of poverty in childhood significantly decreases a child's likelihood of economic and social mobility, facilitating a cycle of poverty from which it is difficult to rise. Education and secure employment play significant roles in this cyclical effect. Children living in families with low levels of parental educational attainment are likely to have lower levels of education, contributing to lower earning potential.<sup>17</sup> See Figures 5 and 6.

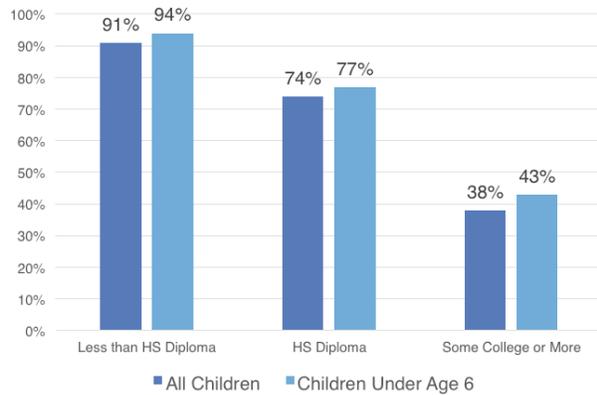
### EDUCATION AND EMPLOYMENT

In South Carolina, while only 10% of the adult population lacks a high school diploma, 94% of children in these families are low-income<sup>18</sup>. Ninety-four percent of children under age 6 who live in a household with less than a high school education grow up low-income.

<sup>17</sup> Radcliff & McKernon, 2012.

<sup>18</sup> Low-income is defined as families with annual incomes of less than 200% of the Federal Poverty Level (FPL). In 2013, a family of 3 would earning less than \$39,060 would be considered low-income. Families typically need to earn over double the FPL yearly in order to meet most or all basic needs.

**Figure 6: Percent of Low-Income South Carolina Children by Family Education Attainment, 2013**



Source: National Center for Children in Poverty

Of the children whose parents only have a high school diploma (30% of the adult population), 74% are considered low-income (under 200% FPL).<sup>19,20</sup>

A child's potential for upward economic mobility depends heavily on their geographic location, and exposure to better neighborhoods and environments can greatly improve a child's long-term outcomes. South Carolina cities rank among the lowest in the country for chances of upward mobility. In Greenville, a low-income child is expected to make about 12.2% less at age 26 than if he/she grew up in an average place in the United States. If the same child grew up poor in Columbia, he/she is expected to earn roughly 14% less than the average low-income child.<sup>21</sup> This lower lifetime earnings potential traps children who experience poverty at a young age into a lifetime of poverty.

North Carolina's children in poverty have slightly lower chances of upward mobility than South Carolina's children. Children in Raleigh and Charlotte will earn on average 13% and 14% less,

<sup>19</sup> U.S. Census Bureau, American Community Survey, 2011-2013, Table S1501.

<sup>20</sup> National Center for Children in Poverty. (2013). South Carolina State Demographics Profile. Retrieved from <http://www.nccp.org>

<sup>21</sup> Chetty, R. The Equality of Opportunity Project, Harvard University. Retrieved from [www.equality-of-opportunity.org](http://www.equality-of-opportunity.org)

respectively. Fayetteville's children in poverty have the lowest chances of economic mobility in the state, earning roughly 18% less than the country's average poor child.<sup>22</sup>

South Carolina has an economic need for a better educated workforce. By 2020, the state is projected to have thousands of new job openings that will require higher percentages of the population to have better education.<sup>23</sup> Investment in programs and policies that support healthy child development and early childhood strengthen a state's overall economic and workforce development.<sup>24</sup>

## Refundable State EITCs Can Mitigate the Effect of Intergenerational Poverty

Nationally, refundable state Earned Income Tax Credit are linked to immediate and long-term improvements for children and families. EITC expansion in other states is shown to significantly increase employment of single mothers<sup>25</sup>, which could mean a reduction in poverty for some of the estimated 41% of children in South Carolina living in single parent families.<sup>26</sup> The income supplement increases the recipient's local economic participation, as credit refunds are mostly spent on bills, childcare, and housing, which in turn improves social mobility and child development outcomes<sup>27</sup>.

Increases in a family's maximum EITC are linked to:

- better health outcomes for parents and children
- increases in reading and math achievement scores
- increased rates of high school graduation and
- increased rates of college enrollment

These benefits have the largest impacts for minority children and boys. The EITC's effect lasts much longer than when a child is a recipient and in school. Higher test scores from children raises the probability of college enrollment, which is associated with higher earnings in adulthood, and an increase in long-term savings.<sup>28</sup>

## Long-Term Impact

Targeting one of the most vulnerable populations - children in poverty - can prevent permanent damage to brain development, improve short and long term health and education outcomes, and reduce reliance on public benefits. A refundable state Earned Income Tax Credit lays a better foundation for healthy child development and builds economic security for South Carolina while interrupting the cycle of poverty for many families. A healthier, better educated workforce will support a stronger and more productive state economy.

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22 Ibid.

23 Carnevale, A. P., Smith, N., & Strohl, J. (2013). *Recovery: Job growth and education requirements through 2020*.

24 O'Donnell, K. (2015). *Financing Early Care and Education: Options for South Carolina*. Greenville, SC: Institute for Child Success.

25 Marr, C., Charite, C. & Huage, C. (2014). *Earned Income Tax Credits Promotes Work, Encourages Children's Success at School, Research Finds*. Washington, DC: Center on Budget and Policy Priorities.

26 The Annie E. Casey Foundation KIDS COUNT Data Center.

27 Maxfield, M. (2013). *The Effects of the Earned Income Tax Credit on Child Achievement and Long-Term Educational Attainment*. Greenville, SC: Institute for Child Success.

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28 Ibid.







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Headquartered in Greenville, South Carolina, the Institute for Child Success (ICS) is an independent, nonpartisan, nonprofit research and policy organization dedicated to the success of all young children. ICS pursues its mission in four primary ways:

- Proposing smart public policies, grounded in research.
- Advising governments, nonprofits, foundations, and other stakeholders on strategies to improve outcomes.
- Sharing knowledge, convening stakeholders, embracing solutions, and accelerating impact.
- Fostering the next generation of leaders.