



Date: March 20, 2025

To: Chair Hoadley and Members of the House Economic Competitiveness Committee

From: Monique Stanton, President and CEO of the Michigan League for Public Policy

Subject: Comments on HB 4055-4057 (Schuette) – Child Tax Credit and Child Care Savings Plans

The Michigan League for Public Policy is grateful to provide comments on HB 4055-4057, sponsored by Rep. Bill Schuette, a package aimed at helping families cover the needs of their children. While we have some concerns about the specifics of the package, we appreciate the steps being taken to begin the conversation about how to improve the lives of our children.

For those of you who are not yet familiar, the League is a nonpartisan research and advocacy organization that promotes economic opportunity for all and analyzes the impact of public policy and budget decisions on the lives of Michiganders who have been historically and systemically left out of opportunities to advance prosperity. The League is also the state's Kids Count organization, working as a part of a national effort to measure the well-being of children at the state and local levels and to shape efforts that improve the lives of Michigan children.

Taken together, House Bills 4055-4057 seek to make raising children more affordable for families in Michigan. We at the League share the sponsor's desire to support families and agree that it benefits all of us when parents can work to support their children knowing their children are safe and have their needs met. This package of bills contains a good starting point for a conversation about what is needed to benefit families and the economy, and we look forward to the opportunity to improve upon these ideas and develop solutions that meet the needs of all families, including those with low and moderate incomes.

House Bill 4055

In 2021, our federal lawmakers cut child poverty in half — the largest drop ever recorded — thanks in large part to an expansion of the Child Tax Credit. Although Congress allowed the expansion to expire, state lawmakers have taken on the charge. Sixteen states and D.C. have all adopted their own versions of a Child Tax Credit, drawing on lessons learned from the expansion's success in addressing child poverty.¹

¹ "Child Tax Credit Overview," November 22, 2024.

<https://www.ncsl.org/human-services/child-tax-credit-overview>.

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House Bill 4055 provides a state Child Tax Credit worth 50% of a taxpayer’s federal credit. This means a family with one child receiving the full \$2,000 federal credit would receive a state credit of \$1,000. One benefit of this structure – as with Michigan’s Working Families Tax Credit – is ease of administration: it would require just one additional line on the MI-1040.

However, there are also downsides to aligning with the federal credit. One in four children in Michigan receives less than the full federal Child Tax Credit because their families earn too little, and these families would continue to be left out under HB 4055. A family earning less than \$2,500 receives no credit at all while a single parent with two kids earning \$30,000 receives less than the full credit. In addition, the federal credit is only partially refundable, meaning a family may not receive the full amount if it exceeds their income tax liability. For this reason, the majority of states with a refundable Child Tax Credit are not coupled with the federal credit.

House Bill 4055 as written would leave out the families with the lowest incomes

| Family structure | Federal credit | Michigan credit |
|--|----------------|-----------------|
| Grandparent raising two kids with no earned income | \$0 | \$0 |
| Single parent with two kids earning \$15,000 | \$1,875 | \$938 |
| Married couple with two kids earning \$20,000 | \$2,625 | \$1,313 |
| Single parent with two kids earning \$150,000 | \$4,000 | \$2,000 |
| Married couple with two kids earning \$400,000 | \$4,000 | \$2,000 |

Table: Michigan League for Public Policy • Created with Datawrapper

Source: MLPP calculations based on Cox, Kris. “Expanding the Child Tax Credit Should Be a Top Priority In ...” Center on Budget and Policy Priorities, September 19, 2024.

<https://www.cbpp.org/blog/expanding-the-child-tax-credit-should-be-a-top-priority-in-2025-tax-debate>.

This year, 543,000 children in Michigan will be left out of the full federal credit, including some of the most vulnerable children.² Children in single-parent households, children being raised by a grandparent receiving Social Security benefits, Black and Hispanic children, and children in rural areas are most likely to be left out of the full \$2,000 federal Child Tax Credit. Given the high price tag of the proposal – around \$1.5 billion annually if all families who took the federal credit also claimed the Michigan credit – we need to ensure we are not excluding the kids who would benefit most.

² Kris Cox and Stephanie Hingtgen. “Policymakers Should Expand the Child Tax Credit for the 17 Million Children Currently Left Out of the Full Credit | Center on Budget and Policy Priorities,” February 5, 2025. <https://www.cbpp.org/blog/policymakers-should-expand-the-child-tax-credit-for-the-17-million-children-currently-left-out>.

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House Bills 4056 & 4057

Our state's children, their parents, and our economy need affordable, accessible and high-quality child care to flourish. But right now, too many families struggle to find affordable child care, often preventing them from paying rent or buying necessities.

House Bills 4056 and 4057 establish tax-advantaged savings accounts for child care. However, the bills do not increase affordability or access to this essential service for families with low and moderate incomes. Tax deductions inherently favor high-income families, and families who do not earn enough to incur a tax liability receive no benefit at all.

We can look to other tax-advantaged accounts, like the Michigan Education Savings Program (MESP), for a sense of who is likely to benefit from this proposal. Only a small number of filers report MESP contributions on their Michigan tax forms each year, and these taxpayers have an average adjusted gross income of roughly \$250,000. As such, we recognize this bill for what it really is: a tax break for families who can already afford to pay.

One of the benefits of a tax-advantaged savings plan, like the MESP, is that parents can spread the cost of attending college over many years. For example, a parent can open the account when their child is a newborn and contribute modest amounts every month, building up the account with deposits and interest over the next 18 years. For many families, child care savings accounts – like those created in these bills – won't have the same benefit. Instead, parents who can afford to will simply deposit dollars into the account to get a relatively small tax benefit, and parents who live paycheck to paycheck or who only have small savings will be unable to access these savings. In this vein, these bills are more similar to the First-Time Home Buyer Savings Account Program that was recently created and has seen very low uptake.

Michiganders with children already have two tax-advantaged paths to help afford child care. The first is a voluntary dependent care flexible savings account (FSA) where households can save up to \$5,000 (or \$2,500 if married filing separately) of pre-tax dollars to spend on child care, benefitting from both federal and state tax advantages. The second is, for parents not using a dependent care FSA, a federal child and dependent care tax credit – a nonrefundable credit that offsets a portion of a family's child care expenses.

Child care advocates widely recognize that making child care work for families will require a comprehensive solution to the workforce crisis. Providing tax deductions for taxpayers with middle and high incomes will not increase capacity in high-need areas, improve workforce recruitment and retention, or ensure livable wages for child care workers. The cost of these bills could be better invested into programs to grow the child care workforce.

Policies to make raising a child more affordable are not just good for kids and their families, but also for workers and our state's economy. We hope to work with the committee to better target families who are currently left out of the package. We would be happy to discuss evidence-based solutions to the state's current child care crisis that address the needs of both workers in the sector and families with low and moderate incomes.

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