MICHIGAN LEAGUE FOR PUBLIC POLICY

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

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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]

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[1] "Child Tax Credit Overview," November 22, 2024. https://www.ncsl.org/human-services/child-tax-credit-overview.

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.