

To: Joseph Palomino, Director of the Arizona Center for Economic Progress

In response to a request from the Arizona Center for Economic Progress, this memo presents estimates of the antipoverty impacts associated with several options for the establishment of a fully refundable Arizona Child Tax Credit.

Arizona currently has a non-refundable dependent tax credit that provides \$100 for each dependent under the age of 17, and \$25 for all other dependents. This credit phases out at a rate of 5% for single/head of household filers with federal adjusted gross incomes (AGIs) exceeding \$200,000 and joint filers with AGIs exceeding \$400,000. Notably, as a non-refundable credit, the Arizona dependent tax credit can only be used to reduce eligible filers' tax liabilities and any credit value in excess of their tax liabilities cannot be claimed as a cash refund.

To explore potential expansions to Arizona's current credit, we model several options for transforming the Arizona dependent credit into a fully refundable Arizona Child Tax Credit:

- Option 1: \$500 per child under the age of 18, phasing out at a rate of 10% for single/head of household filers with AGIs exceeding \$75,000 and joint filers with AGIs exceeding \$110,000
- Option 2: \$1,000 per child under the age of 18, phasing out at a rate of 10% for single/head of household filers with AGIs exceeding \$75,000 and joint filers with AGIs exceeding \$110,000
- Option 3: \$2,000 per child under the age of 18, phasing out at a rate of 10% for single/head of household filers with AGIs exceeding \$75,000 and joint filers with AGIs exceeding \$110,000

We also model each of these options under a more targeted phaseout structure in which all families that are eligible for the federal Earned Income Tax Credit would receive the maximum Arizona Child Tax Credit.<sup>1</sup> Results under the more targeted structure are presented in **Appendix Table A1**.

**Table 1** presents the poverty impacts associated with the three options specified above. The top row of **Table 1** presents our best estimates of the current child poverty rate in Arizona under current policy. Rows 2 through 4 present the poverty impacts associated with each of the proposed expansions described above. As to be expected, the Arizona Child Tax Credit that provides the largest credit amount has the most substantial impact on poverty, with the potential to reduce poverty by nearly a third compared to the "current policy" baseline. Importantly, however, any of the below policy packages have the potential to move a substantial number of children out of poverty. This is due, in part, to the fact that each option is fully refundable, ensuring that the families with the lowest incomes would be eligible to receive the credit.

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<sup>1</sup> The more universal and more targeted credit structures described in this memo follow the same design parameters in Vinh et al. (2025), [The Potential of Local Child Tax Credits to Reduce Child Poverty](#).

**Table 1.** Predicted antipoverty impacts associated with expansion options for an Arizona Child Tax Credit

	<b>Child Poverty Rate</b>	<b>Percent Reduction in Poverty Rate</b>	<b>N Children Moved out of Poverty</b>
(1) With current policy dependent tax credit	12.7%	-	-
(2) With fully refundable <b>\$500</b> per child credit for children under age 18	11.5%	9.3%	19,000
(3) With fully refundable <b>\$1,000</b> per child credit for children under age 18	10.6%	15.9%	32,000
(4) With fully refundable <b>\$2,000</b> per child credit for children under age 18	8.9%	29.9%	60,000

\*Based on population size estimate of 1,585,751 children in Arizona (source: <https://data.census.gov/table?q=arizona+dp05>)

Note: Due to rounding, some estimates may not correspond with separate figures.

Estimates in Table 1 are based on the most recent available data from the American Community Survey (ACS).<sup>2</sup> All estimates reflect the estimated impact of these programs and the proposed expansions based on their value in 2025 dollars. The model behind these estimates does not account for possible behavioral responses to these policies or possible financing mechanisms, both of which could alter the results. The model assumes full take-up of these credits by eligible families. See the Methods section for additional information on the data and approach used to produce these estimates.

<sup>2</sup> Data for this simulation are pooled from 3 years of the American Community Survey (2019, 2022 and 2023). We exclude the peak years of the COVID-19 pandemic to maintain a more consistent sample.

## Methods

Data for this simulation are pooled from 3 years of the American Community Survey (2019, 2022, and 2023). We exclude the peak years of the COVID-19 pandemic to maintain a more consistent sample. The analysis compares household resources and poverty rates, measured using the Supplemental Poverty Measure, before and after including income associated with the proposed credits, which were calculated according to the described policies. The effects of federal and state Child Tax Credits as they are structured for 2025 were modeled for Arizona. This includes the latest version of the federal Child Tax Credit that increases the per-child maximum credit from \$2,000 to \$2,200 but retains the same phaseout structure per the budget reconciliation bill (H.R.1) that was passed in July 2025. Credit amounts and parameters in the simulations of different Arizona Child Tax Credits were adjusted for inflation in each respective year to reflect their effects on the poverty rate according to their structure in 2025 and value in 2025 dollars. The model behind these estimates does not account for possible behavioral responses to these policies or possible financing mechanisms, both of which could alter the results. The model assumes full take-up of these credits by eligible families.

The ACS data used in this analysis were retrieved from IPUMS USA ([Ruggles et al. 2025](#)), including variables related to the Supplemental Poverty Measure developed by [Fox, Pacas, and Glassman \(2020\)](#). Estimates of poverty measured using the SPM typically rely on data from the Current Population Survey Annual Social and Economic Supplement (CPS ASEC) as the CPS ASEC includes the detailed income and program participation data required to construct the SPM. However, the ACS offers a substantially larger sample size and more granular geographic coverage than the CPS ASEC, making it well-suited for generating reliable estimates at the state and sub-state levels. We also adjusted the underlying ACS data to reflect our estimates of tax liabilities and credits. These are based on tax units constructed by the Center on Poverty and Social Policy.<sup>3</sup> Tax liabilities are estimated using NBER's TAXSIM.

As the CPS-ASEC is the official dataset used to measure poverty under the SPM, we designed a method to improve the alignment of ACS-based estimates with those from the CPS-ASEC. We apply a raking adjustment (iterative proportional fitting) to recalibrate the ACS person-level weights. This procedure adjusts the weights so that the marginal distributions of key variables – age group, race/ethnicity, sex, highest educational attainment in the household, and SPM poverty brackets – conform to corresponding distributions in the CPS-ASEC. By addressing differences in survey design, measurement, and coverage, this reweighting enhances the validity of ACS-based SPM estimates for use in state and small-area estimates or subgroup analyses.

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<sup>3</sup> See Appendix A of [Collyer et al. 2025](#) for a description of this construction.

## Appendix

Appendix **Table A1** presents the antipoverty impacts of the above three Child Tax Credit options under a more targeted structure that phases out at a rate of 21.06% for single/head of household filers with AGIs exceeding \$61,555 and joint filers with AGIs exceeding \$68,675. In other words, under this structure, all families that are eligible for the federal Earned Income Tax Credit (EITC) would thereby receive the maximum Arizona Child Tax Credit, which would then begin to phase out at the point in the income distribution where families are no longer EITC-eligible. While the poverty impacts remain similar to those presented in **Table 1**, fewer children overall would receive a credit under this structure.

**Table A1.** Predicted antipoverty impacts associated with expansion options for an Arizona Child Tax Credit

	<b>Child Poverty Rate</b>	<b>Percent Reduction in Poverty Rate</b>	<b>N Children Moved out of Poverty</b>
(1) With current policy dependent tax credit	12.7%	-	-
(2) With fully refundable <b>\$500</b> per child credit for children under age 18	11.5%	9.3%	19,000
(3) With fully refundable <b>\$1,000</b> per child credit for children under age 18	10.7%	15.8%	32,000
(4) With fully refundable <b>\$2,000</b> per child credit for children under age 18	8.9%	29.8%	60,000

\*Based on population size estimate of 1,585,751 children in Arizona (source: <https://data.census.gov/table?q=arizona+dp05>)

Note: Due to rounding, some estimates may not correspond with separate figures.