Tax Credits & Tax Deductions: Impact and Key Differences

Diaper Need

Diapers are critical to the health of infants and toddlers, as well as the economic and emotional wellbeing of families. Without enough diapers, infants and toddlers are at risk of skin infections, open sores, urinary tract infections, and other conditions that may require medical care. In addition, 1 in 4 parents and caregivers with diaper need reported having to miss work or school because they did not have enough diapers to drop their child off at childcare.[1]

According to *The NDBN Diaper Check 2023*, 1 in 2 U.S. families with young children still struggle to afford enough diapers to keep their baby clean, dry, and healthy. More than 225 National Diaper Bank Network member diaper banks across the country are hard at work to address this growing public health issue by collecting, storing, and distributing free diapers to families in their local communities.

The Impact of Tax Credits and Tax Deductions on Diaper Banks

Tax credits and tax deductions are both measures that work to incentivize and encourage donations to diaper banks through a reduction in the amount of money that taxpayers who donate applicable items will owe on their taxes for the year.

Particularly when combined with other meaningful legislation such as state funding to expand diaper distribution programs, both tax credits and tax deductions can have a meaningful impact on diaper banks' ability to serve their communities while supporting them in their work to address diaper need.

Tax Credits and Tax Deductions

Tax credits and tax deductions both have similar benefits for diaper banks and taxpayers. However, there are some key differences between these two methods of incentivizing donations to diaper banks.

Tax credits such as the Diaper Bank Tax Credit in Missouri directly reduce the amount of taxes that a taxpayer must pay through a dollar-for-dollar deduction. For example, a tax credit of $1,000 will always lower an individual's tax bill by $1,000.

However, there are key differences between refundable and non-refundable tax credits. While refundable tax credits allow taxpayers to claim an amount that is greater than their taxes owed, a non-refundable tax credit means that the amount of credit claimed cannot exceed the amount of taxes owed. In some cases, refundable tax credits result in refund checks for taxpayers, while non-refundable tax credits will result in, at most, a $0 tax bill.

Alternatively, tax deductions such as those available in Maryland (H.B. 490) reduce the percentage of a taxpayer's income that is subject to taxes. Unlike tax credits, the monetary impact of tax deductions is variable because they work by lowering an individual's taxable income based upon the percentage of their income tax bracket. For example, if a taxpayer falls into the 24% tax bracket, a tax deduction of $1,000 would result in a savings of $240. However, if a taxpayer falls into the 32% tax bracket, the same deduction of $1,000 would result in a savings of $320.

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[1] The NDBN Diaper Check 2023: Diaper Insecurity Among U.S. Children and Families (Report commissioned by the National Diaper Bank Network)