



Tax Credits for Working Families *Helping American Families Make Ends Meet*

In 2009, Congress made significant improvements to three federal tax credits that help working families with children: the Child Tax Credit, the Earned Income Tax Credit, and the American Opportunity Tax Credit. Targeted to assist low-income working families, these expansions are scheduled to expire after tax year 2010. If they are allowed to expire, working parents earning near or just above the minimum wage will suffer a loss of \$1,500 or more. Preserving the tax credit levels set in 2009 will promote work, help with the high cost of raising children, and make college more affordable.

The Child Tax Credit

The Child Tax Credit (CTC) was created to help working families with the costs of raising children. It's a tax credit that is worth up to \$1,000 per child under age 17, with the amount depending on the family's earnings. According to the Tax Policy Center, the CTC is the largest tax code provision benefiting families with children.

These three tax credits are called "refundable" – that is, if a low-income working family's credit is larger than the federal income tax they owe, they receive the difference in the form of a refund.

The Tax Policy Center estimates that 35 million families will claim the CTC, totaling \$52 billion in 2010.¹ If today's level expires, 7.6 million children will lose the benefit completely and another 10.5 million will receive a smaller credit. Such a drastic reduction in the CTC would push 600,000 children into poverty and deepen the poverty of another 4 million children, according to the Center on Budget and Policy Priorities.²

The credit is especially beneficial for families earning \$10,000 - \$20,000 a year. Here's how it works: the family's first \$3,000 in earnings does not count, but the family receives 15 percent of earnings over \$3,000, to a maximum of \$1,000 per child. A family with two children and earnings of \$15,000 would therefore receive \$1,800. But if the current law expires this year and the CTC reverts to its 2001 level, about \$13,000 of that family's earnings will not count; their credit will be cut down to \$300. The fairest approach would count all earnings for low-income families. If all of the family's \$15,000 in earnings were counted, they would receive the full \$2,000 (\$1,000 per child), \$200 more than current law allows. The CTC is not available to families with incomes higher than \$130,000; it begins to phase out for married couples with earnings above \$110,000.

The Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a federal tax credit for low-income working families and individuals. It is intended to encourage work by supplementing low wages, reduce the tax burden on low-income workers, and help families with children make ends meet. The average payment for families with children is about \$2,500. In 2008, the EITC reduced or eliminated tax liability worth nearly \$50 billion, providing cash refunds to 24 million low-income working families.³

In 2009, the Earned Income Tax Credit was temporarily expanded for two specific groups: families with three or more children and married couples. Effective for taxes filed for 2009 and 2010, the EITC will help these taxpayers by:

¹ Elaine Maag and Adam Carasso, "Taxation and the Family: What is the Child Tax Credit?" Tax Policy Center, February 4, 2010

² Arloc Sherman, Avi Feller, Chuck Marr, "Failure to Extend Improvements in Child Tax Credit Would Harm Millions of Low-Income Working Families" Center on Budget and Policy Priorities, February 16, 2010, at <http://www.cbpp.org/files/2-16-10tax2.pdf>

³ IRS EITC Central website: <http://www.eitc.irs.gov/central/abouteitc/>

- Creating a new “third tier” of the EITC for families with three or more children. Before this change, the EITC provided more for families with two children than it did for a single child, but offered no increase for families with more than two children. Now, the maximum EITC for families with three or more children is increased by \$629.
- Reducing the loss in EITC experienced by married parents (as compared to the value of the EITC if they were two single parents raising children). For example, a single parent with earnings of \$20,000 will receive an EITC of \$4,269 for two children. Married parents with two children and the same earnings will receive \$759 more. More than 3 million married couples will benefit from this change.

The amount of EITC dollars going to American families will increase by \$4 billion because of these two changes – an 8.8 percent increase from current law.

These changes will expire at the end of 2010 unless Congress votes to make the expansions permanent.

The EITC improvements for families with 3 or more children and for married couples will increase the credit for an estimated 7.7 million families and make 900,000 families newly eligible.

The American Opportunity Tax Credit (Hope Credit)

Established in 1997, the Hope Credit (renamed the American Opportunity Tax Credit in 2009) provides a tax subsidy for college tuition costs. The goal is to support students who could not otherwise afford to attend college. In 2009, this college tax credit was made partially refundable, in order to reach 3.8 million prospective college students who previously could not use the Hope Credit because their families’ incomes were too low to qualify. Before the change, a couple with one child in college and another younger child would be ineligible for the credit if their income were below \$26,000. Now, they can receive up to \$1,000. Low-income single adults attending college may similarly be eligible for a partial credit. Like the other credits, the changes will expire in 2010 if Congress does not act to extend them.

3.8 million high-school-age students (age 14-17) live in lower-income families and can now qualify for a \$1,000 college tuition credit they could not receive in the past.

The 2009 changes increase the maximum credit from \$1,800 to \$2,500, and allow the credit to be claimed for four years (up from the two years previously allowed). If a family earns too little to owe federal income tax, its student can qualify for a credit worth up to \$1,000. The credit begins to phase out for couples with incomes of \$160,000; couples with incomes of \$180,000 or more may not claim the credit.

Supporting Hard-Working Families

In total, the tax credit improvements made in 2009 have had a significant impact on American families at a time when incomes have dropped due to the recession. These credits are targeted to assist low-income working families with children and low-income college students. The Child Tax Credit improvements provide about \$1,750 to a full-time minimum wage worker with two children. If the improvements expire, this family will lose all but \$250. Similarly, the loss of the EITC and college credit improvements will reduce income, deny opportunities, and work against economic recovery. As Congress takes up the extension of middle class tax cuts, preserving and building upon these refundable credits must be a top priority.

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