

## Child Tax Credit Expansion Increases Number of Families Eligible for a Refund

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Many have deemed the current economic recession the “hardest times” financially since the Great Depression, with some referring to it as the Great Recession.<sup>1</sup> With record job losses, unemployment, and mortgage foreclosures, many families are not merely feeling “pinched,” rather there is a day to day struggle to make ends meet and survive the long road to recovery. Recently, the federal government has passed an economic stimulus plan that provides substantial tax relief including refundable tax credits for America’s working families. Included in this legislation is expansion of the Child Tax Credit to enable more families to receive refunds from the government. A larger proportion of rural than urban or suburban families are poised to benefit from the expansion of the Child Tax Credit.

### What is the Child Tax Credit?

The Child Tax Credit was initially enacted in 1997 as part of the Taxpayer Relief Act and expanded in 2001 and 2003 to increase the benefit and expand coverage to more low income families. It was designed to provide tax relief for low and middle income families raising children.<sup>2</sup>

Families can receive the Child Tax Credit of up to \$1,000 per qualifying child.<sup>3</sup> The credit is first applied to reduce a family’s taxes. Families may qualify for a refund if their credit exceeds taxes and they meet earnings requirements.

Even after the 2001 and 2003 expansions, the lowest earning families remained excluded from any Child Tax Credit benefit, since they did not owe income taxes or meet the eligibility threshold for a refund of the Child Tax Credit.

Before President Obama signed The American Recovery and Reinvestment Act, families earning at least \$12,550 in 2009 would have qualified for the refund. The refund amount phased-in at the rate of 15% of the family earnings above the \$12,550 threshold, up to the maximum \$1,000 per child tax credit remaining after all taxes were satisfied.<sup>4</sup> Since virtually all families earning \$12,550 per year or less had no tax liability, they were ineligible for any relief from the Child Tax Credit. The new legislation drops the refundability threshold to \$3,000 for 2009 and 2010, vastly increasing the number of families now eligible for the refundable tax credit, as shown in Table 1.

**TABLE 1: ESTIMATED NUMBER OF FAMILIES AND CHILDREN NEWLY ELIGIBLE FOR THE REFUNDABLE CHILD TAX CREDIT AND ESTIMATED AVERAGE AND TOTAL REFUNDS BY PLACE\***

RESIDENCE TYPE	Percent of Families	Number of Families	95% Confidence Interval	Number of Children	95% Confidence Interval	Median refund for Newly Eligible Families**	Total Estimated Payments to Newly Eligible Families (Thousands of dollars)**
Rural	9	510,438	±54,059	909,717	±78,067	\$774	\$377,536
Suburban	5	895,897	±78,509	1,512,950	±88,638	\$878	\$677,666
Central City	8	823,560	±78,523	1,554,109	±115,230	\$848	\$625,406
<b>TOTAL*</b>	<b>7</b>	<b>2,701,185</b>	<b>±133,086</b>	<b>4,801,036</b>	<b>±188,155</b>	<b>\$774</b>	<b>\$1,979,731</b>

\* This analysis is based on own and spousal earnings only. It assumes no tax liability and no unearned income.

\*\* The total includes families and children residing in areas that are not identified by the Census Bureau.

## How Many Families are Newly Eligible for the Child Tax Credit?

Lowering the threshold to \$3,000 extends the benefit of the Child Tax Credit to many working poor families. Table 1 presents the distribution of newly eligible children and families by place. Nationwide, nearly 2.7 million families will become newly eligible for the refundable child tax credit. This includes over 500,000 rural families, or almost 9 percent of rural families. Within these families are an estimated 909,717 rural children.<sup>5</sup> The percent of urban families is slightly lower and only 5% of suburban families are newly eligible for the credit.

Table 1 shows that the Child Tax Credit refund of 2009 will put an estimated 2 billion dollars into the hands of newly eligible low income families. Such families are likely to quickly spend this money to cover basic needs and thus to stimulate the economy.<sup>6</sup> The median refund newly eligible families receive is \$774, somewhat higher for suburban and urban families. This translates into an infusion of nearly 378 million dollars into rural communities, almost 678 million into suburban places, and over 625 million dollars into central cities.

## Many will not Receive the Maximum Child Tax Credit

This expansion represents significant help for numerous families. In addition to those newly eligible, many families will see increased benefits. According to the Center on Budget and Policy Priorities, a total of roughly 13.2 million children will benefit from the expanded tax credit either by becoming newly eligible or by receiving an increased benefit.<sup>7</sup>

It is important to remember, however, that few of those newly eligible for the refundable portion of the child tax credit will receive the full \$1,000 per child. Families need to file tax returns with the Internal Revenue Service and claim the credit in order to receive a refund. Many eligible families may not typically file tax documents and may not realize they are eligible for a refund. Additionally, many filers will only receive a portion of the credit. Since only 15% of the dollar amount of earnings above \$3,000 can be refunded, a family with one child would need to have earnings equal to \$9,667 to receive the full \$1,000 credit.<sup>8</sup> Only 41% of newly eligible families with one qualifying child have earnings at or above this level and will receive the full \$1,000 child tax credit refund.

A family with two children needs to earn at least \$16,333 to be eligible for the full \$2,000 credit. For each additional

child, an additional \$6,667 of earnings is needed to get the maximum refund (assuming no tax liability). By definition, the newly eligible families will not receive the full credit for more than one child since the cutoff for being newly eligible is earnings under \$12,550.

As shown in Table 2, the median earnings for all newly eligible families fall far short of those required to receive the full credit for even one child. Yet almost half of all newly eligible families, and more than half of such rural families, have more than one child. Families with two children earning \$8,160, the national median for newly eligible families, will only get a child tax credit refund of \$774, far less than the \$2,000 maximum.<sup>9</sup> Thus, lowering the child tax credit threshold will benefit newly eligible families with more than one child less than those with only one child. Their benefit per child will be far lower: A two child family with earnings of \$8,160 will receive \$387 per child; whereas a one child family with the same earnings will receive \$774 for their child.

## Single Earner Families Face Additional Challenges

Table 2 shows demographic characteristics of families newly eligible for the Child Tax Credit. Most of the newly eligible families are headed by single parents. However, most two-parent families that are newly eligible for the credit are single earner couples. This means that over ninety-five percent of the newly eligible families have a sole breadwinner. In these times of economic distress, with high

TABLE 2: A PROFILE OF THE NEWLY ELIGIBLE FAMILIES

	Rural	Suburban	Central City	Total*
<b>Median Annual Earnings**</b>	\$8,160	\$8,851	\$8,654	\$8,160
<b>Number of Qualifying Children</b>				
One	49%	56%	49%	52%
Two	31%	25%	29%	28%
3 or more	19%	19%	22%	20%
<b>Single Parent</b>	71%	75%	77%	75%
<b>Married Parents</b>				
One Earner	23%	22%	20%	22%
Two Earners	6%	3%	2%	4%

\*The total includes families and children residing in areas that are not identified by the Census Bureau.

\*\*Based upon reported 2007 annual earnings inflation adjusted to 2009 dollars.

job losses and few new opportunities, these families are at risk of losing their earnings and thus becoming ineligible for the child tax credit.

Additionally, since the credit is based on the number of children in the home, regardless of the number of adults, the earnings threshold is the same for single and two parent families. Since single earners have only one worker, the threshold may be harder for them to meet especially in this time of increased layoffs, depressed wages, and higher unemployment.

## Families Would Benefit from Even Further Expansion of the Child Tax Credit

Rural families typically have lower earnings than their urban counterparts<sup>10</sup> and may face additional challenges during this economic recession, as more jobs disappear and fewer alternate opportunities are available. While the expansion of the Child Tax Credit will benefit many families, it may have even more of an impact if the phase-in were eliminated, that is, if all eligible received the full credit, rather than only 15% of their earnings. This would allow all eligible families to receive their maximum child tax credit refund.

It would also assist very low income families if the earnings threshold were eliminated during this tough economic period. This may not be the time for refusing the benefit to a jobless parent who may have been laid off as a result of these trying economic times. Lowering the \$3,000 threshold to zero would aid an estimated additional 6.9 million children; over 1.25 million of whom live in rural America.

Alternatively, if the threshold is kept at \$3,000, and the credit continues to be phased in with earnings above this amount, perhaps the rules could be changed to allow families with more than one child to receive the full benefit at the same earnings level as families with only one child. Other proposals for expanding the child tax credit include changing eligibility requirements to match those for federal income tax dependents, making the child tax credit permanent, and indexing the maximum value of the child tax credit to inflation.<sup>11</sup> The combined effect of such proposals would be to expand the safety net for America's children.

## Data

This analysis is based upon estimates from the 2008 Annual Social and Economic Supplement to the Current Population Survey. Families in which single earner earnings or combined earner and spouse earnings are between

\$3,000 and \$12,550 are included in these calculations.<sup>12</sup> Earnings values collected refer to 2007 and have been converted to 2009 dollars, using the Bureau of Labor Statistics' Inflation Calculator. Children include own children and other, identifiable related children in the family who are 16 years of age or under.

## ENDNOTES

1 See Leonhart, David. 2009. "Job Losses Show Breadth of Recession." *New York Times* March 3, 2009, [http://www.nytimes.com/2009/03/04/business/04leonhardt.html?\\_r=1](http://www.nytimes.com/2009/03/04/business/04leonhardt.html?_r=1), accessed March 6, 2009.

2 See Aron-Dine, Aviva. 2008. "Improving the Refundable Child Tax Credit: An Important Step Toward Reducing Child Poverty." Washington, DC: Center on Budget and Policy Priorities (5/19/08); Burman, Leonard E. and Laura Wheaton. 2007. "Eligibility for Child Tax Credit by Age of Child." Washington, DC: Tax Policy Center (5/22/07); and Esenwein, Gregg A. "Tax Topics: Child Tax Credit." Washington, DC: Tax Policy Center, <http://www.taxpolicycenter.org/taxtopics/encyclopedia/Child-Tax-Credit.cfm> accessed March 3, 2009.

3 Qualifying children for this tax credit are defined as being age 16 or under and meeting residency and relationship requirements. For a complete discussion of who counts as a qualifying child for the child tax credit, see <http://www.irs.gov/newsroom/article/0,,id=133298,00.html>.

4 Note that the value of the credit decreases by 5% of income above \$110,000 for married filers filing a joint return; above \$75,000 for single, head of household or qualifying widower filers; and above \$55,000 for single filers. So, for example, a married couple with 2 children and an income of \$140,000 would qualify for a credit of \$500.

5 Since these numbers are premised on earnings in 2007 (converted to 2009 dollars as discussed in Data section), they do not include families who have fallen into the \$3,000-\$12,550 range due to job loss or reduced hours. However this may be offset by families who may have lost earnings altogether, or fallen below the \$3,000 threshold, as a result of the recession.

6 See Blank, Rebecca and Mark H. Greenberg. 2009. "Poverty and Economic Stimulus." Washington, DC: The Brookings Institution. (February 10), [http://www.brookings.edu/opinions/2009/0210\\_poverty\\_stimulus\\_blank.aspx](http://www.brookings.edu/opinions/2009/0210_poverty_stimulus_blank.aspx), accessed March 16, 2009.

7 Sherman, Arloc. 2009. "Recovery Agreement Temporarily Expands Child Tax Credit for Large Numbers of Children In Every State." Washington, DC: Center on Budget and Policy Priorities (2/19/09).

8 These calculations assume there is no unearned income such as interest, dividend, or rent income.

9 Families with moderate earnings will also see a reduction in benefit, or, high earnings, no benefit at all. For example, a married couple with two children under age 17, filing a joint federal tax return, and earning \$150,000 or more would not receive a child tax credit.

10 See Smith, Kristin. 2009. *Working Hard for the Money: Trends in Women's Employment 1970 to 2007*. Durham, NH: The Carsey Institute. University of New Hampshire.

11 See the Poverty Forum Press Kit, <http://www.thepovertyforum.org/resources/The-Poverty-Forum-Press-Kit.pdf> accessed February 19, 2009.

12 This analysis assumes that those with earnings in this range do not have substantial other income. If they did, they would have been eligible for the child tax credit to the extent that they had income tax liability.

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