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OVER 3 MILLION LOW-INCOME CHILDREN IN RURAL AREAS FACE CUT IN CHILD TAX CREDIT IF RECOVERY ACT IMPROVEMENT EXPIRES

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Nearly 3.3 million low-income children with working parents in rural areas will lose important tax benefits if Congress does not extend the Child Tax Credit improvements that the 2009 American Recovery and Reinvestment Act provided for low-income families, as President Obama has proposed.

These nearly 3.3 million low-income children live in rural areas all across America. More than 10,000 rural children will face reductions in the tax credit in each of the 44 states for which we have reliable rural data. In 11 states, more than 100,000 rural children will face a reduction. Moreover, rural children (i.e., those who live in non-metropolitan areas) will be over 20 percent *more likely* than children in urban and suburban areas to be affected — because their families are more likely to have modest incomes.

If the tax credit improvement that is in effect for 2009 and 2010 is allowed to expire at the end of this year, a family with two children in which a parent is working at a full-time, minimum wage job will see its child credit fall from $1,725 to $248.

Recovery Act Enabled More Low-Income Working Families to Qualify for Child Tax Credit

The 2009 Recovery Act modified the Child Tax Credit to enable low-income working parents to count more of their wages toward the credit. Under prior law, a working family's first $12,550 in wages would not have counted toward the child credit in 2009. The Recovery Act lowered this wage threshold to $3,000 for 2009 and 2010.

This improvement extended the tax credit to an estimated 2.7 million low-income working families — including over half a million rural working families — who otherwise would not have qualified for it because their wage income is too low. The improvement also increased the amount of the tax credit for many other low-income families who previously received only a *partial* credit.[1] The expansion of the tax credit both rewards these families' work and encourages greater work effort. (Note: The Child Tax Credit begins phasing in slowly once a family's wages rise above the wage threshold. For every $100 of earnings above the threshold, the family qualifies for an additional tax credit of $15, until the family reaches the maximum tax credit level of $1,000 per child. As a result, low-income families with two children whose earnings exceed the wage threshold level receive a *partial* credit — rather than the *full* credit of $1,000 per child — unless their earnings surpass the threshold by at least $13,333. If the wage threshold is set at $3,000, families with two children must earn at least $16,333 to receive the full tax credit.)

President Obama has proposed making this improvement in the tax credit permanent. If Congress fails to act, the wage threshold to qualify for the credit will jump from $3,000 this year to $12,850 next year. That means, for example, that a family with two children where a parent is working at a full-time, minimum wage job will see its child credit fall sharply from $1,725 this year to $248 next year. This reduction also will affect families further up the income scale. If the wage threshold rises to $12,850, a family with two children will not qualify for a full tax credit until its earnings reach the $26,183 level.

The Urban Institute-Brookings Institution Tax Policy Center estimates that more than 18 million children aged 0-16 whose parents work will lose all or part of their child credit if Congress lets the improvement expire.[2] In addition, the Center on Budget and Policy Priorities estimates that 600,000 children will be pushed into poverty because the loss of part or all of the credit will drop their families' incomes below the poverty line, and an additional 4 million children who already are poor will become poorer.[3]

Reduction in Credit Will Have Sizeable Effects on Rural Children in Most States

Our analysis finds that nearly 3.3 million rural children in low-income working families, and 14.8 million children in metropolitan areas, will see reductions in their Child Tax Credit if Congress does not extend the current rules (see Table 1).

Reliable data on rural children are available for 44 of the 50 states.[4] More than 10,000 rural children will be affected in each of these states. The states with the largest numbers of rural children whose families will face a reduced tax credit include: Texas (258,000 such children), North Carolina (199,000 children), Mississippi (154,000), and Georgia (139,000). The other states with losses for

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[1] Marybeth Mattingly, "Child Tax Credit Expansion Increases Number of Families Eligible for a Refund," Issue Brief No. 4 (Spring 2009), Carsey Institute, University of New Hampshire.

[2] See www.taxpolicycenter.org/numbers/Content/Excel/T10-0009.xls.

[3] Arloc Sherman, Avi Feller, and 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, www.cbpp.org/files/2-16-10tax2.pdf. That analysis also contains state-by-state estimates of the number of children who will lose some or all of their child credit. Those state estimates differ from the sum of the metro and nonmetro numbers in this analysis due to the use of different Census survey data and methods.

[4] New Jersey and Rhode Island (along with the District of Columbia) contain no nonmetropolitan areas and Idaho, Maryland, Massachusetts, and Utah have limited rural data, as discussed below.

100,000 or more children are Kentucky, Michigan, Missouri, Ohio, Oklahoma, Pennsylvania, and Tennessee.

States where *rural* children make up the largest percentage of *all* affected children include: Montana (where 73 percent of the children who will be affected, or 40,000 children, are rural children), Vermont (where 68 percent, or 15,000, are rural), Wyoming (66 percent, or 17,000, are rural), and North Dakota (63 percent, or 17,000, are rural).

Rural Children at Greater Risk

Rural children will be roughly 20 percent more likely than those in metropolitan areas to face reductions in their child credit if Congress fails to extend the Recovery Act improvement. Nationwide, rural America includes 15 percent of all children — but 18 percent of the children whose Child Tax Child credit would be reduced. (See Table 2 for state data.)

This disparity reflects the generally lower earnings of rural workers and their families. In metropolitan areas, 49 percent of earners earn less than $30,000 a year. But in nonmetropolitan areas, 60 percent do. Low earnings are significantly more common in rural than metropolitan areas in 45 of the 48 states for which these data are available. (See Table 3.)

Appendix: Data and Methods

Our estimates start with the Tax Policy Center's projection that approximately 18.1 million children nationwide will lose all or part of their Child Tax Credit in 2011 if the Recovery Act provisions expire. We allocate this figure by state, and within states by metropolitan status, using data from the Census Bureau's 2008 American Community Survey.

Specifically, we use the Census data to create a simplified model of each family's tax credits and use these simplified estimates to allocate the Tax Policy Center's more precise national total.[5] For example, if our model shows that the non-metropolitan portion of a state contains 1 percent of all U.S. children facing a Child Tax Credit reduction, we assign that area 1 percent of the Tax Policy Center's 18.1 million total. All estimates were weighted to account for sampling.

Rural areas are defined as all areas that were not in a metropolitan statistical area in 2008. Two states (New Jersey and Rhode Island) and the District of Columbia are entirely metropolitan and include no rural areas.

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[5] Steps in creating our simplified tax model include constructing tax filing units, calculating their earnings and approximate adjusted gross income, and using federal tax rules to calculate taxable income, income tax liability before taxes, and the Child Tax Credit. All income figures and tax parameters are in 2011 inflation-adjusted dollars. The model excludes children under age 17 who are married or heads of household. In total, our model indentifies 13.0 million children who would lose some or all of the child credit if current rules are allowed to expire.

Our simplified model assumes that all families claim the standard deduction. When we use a more complex tax model that includes estimates of itemized deductions such as mortgage interest, property taxes, and state income taxes, our results change very little from those shown in Table 1.

Because public data files from the American Community Survey do not identify metropolitan status directly, we used geographic identifiers provided by the Census Bureau (called Public Use Microdata Areas). Most of these Census areas fall entirely within or entirely outside metropolitan boundaries and thus provide a straightforward indicator of rural status.

In cases where part of the Census area is in a rural area and part in a metropolitan area, we assign the percentage of the area's CTC-eligible children to metropolitan status based on the percentage of the area's total population that is metropolitan.[6] In four states, the overlap between Census areas and rural areas is relatively weak and we are less confident that this method will give us an accurate result.[7] In these states (Idaho, Massachusetts, Maryland, and Utah) we do not show results, although we include data from these states in the national totals.

Available data were not sufficient to distinguish urban from suburban parts of metropolitan areas.

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[6] Files available from the Missouri Census Data Center show what share of each Census area's total population lives in a metropolitan statistical area. We designate that same fraction of the area's children "metropolitan" and the remaining fraction "rural." This rural/metro split is applied equally to every child in the data file who lives in that area. (For example, in conventional analyses of Census data, a typical child whose parents filled out the American Community Survey might represent a total of 100 "weighted" children in his or her community. If the child is from a Census area that we know to be 80 percent rural, we consider that child to represent 80 rural children and 20 metropolitan children.)

[7] We do not show results for states where the average resident who is assigned "rural" status by our method is drawn from a Census area where the actual population is less than two-thirds rural (i.e., at least one-third metropolitan). In Massachusetts, for example, the average resident assigned "rural" status lives in an area that is only 25 percent rural. Comparable percentages are somewhat higher in Maryland (50 percent), Utah (53 percent), and Idaho (66 percent) but still below our cut-off of two-thirds. For the nation as whole, by our method, the average resident assigned "rural" status is from an area that is 86 percent rural.

Table 1:
Number of Children (0-16) Who Will Receive A Smaller Child Tax Credit, Or No Child Tax Credit, If the Wage Threshold Rises from $3,000 to $12,850 in 2011

	Estimated Number of Children (in thousands)	
	Metro	**Nonmetro**
United States	14,802	3,251
Alabama	206	96
Alaska	19	17
Arizona	455	39
Arkansas	129	96
California	2,396	44
Colorado	246	33
Connecticut	118	11
Delaware	36	13
District of Columbia	18	0
Florida	988	70
Georgia	536	139
Hawaii	29	13
Idaho	72	–
Illinois	627	98
Indiana	293	88
Iowa	98	70
Kansas	95	58
Kentucky	143	121
Louisiana	219	91
Maine	35	25
Maryland	184	–
Massachusetts	212	–
Michigan	477	106
Minnesota	140	73
Mississippi	97	154
Missouri	229	125
Montana	15	40
Nebraska	63	40
Nevada	151	13
New Hampshire	17	17
New Jersey	339	0
New Mexico	103	73
New York	935	77
North Carolina	410	199
North Dakota	–	17
Ohio	476	130
Oklahoma	170	104
Oregon	172	53
Pennsylvania	448	104
Rhode Island	38	0
South Carolina	200	68
South Dakota	24	25
Tennessee	291	119
Texas	1,873	258
Utah	147	–
Vermont	–	15
Virginia	299	63
Washington	266	53
West Virginia	56	52
Wisconsin	190	67
Wyoming	–	17

– Reliable data not available. (See footnote 7.)
Source: Tax Policy Center national estimates allocated by state and place using 2008 American Community Survey data.

Table 2:
Percent Rural, For All Children and Those Who Will Lose Part or All of the Child Tax Credit if Threshold Increases from $3,000 to $12,850 in 2011

	Percent Living in a Non Metropolitan Area	
	All Children	**Children Facing Loss/Reduction of CTC**
United States	15%	18%
Alabama	28%	32%
Alaska	32%	46%
Arizona	7%	8%
Arkansas	38%	43%
California	2%	2%
Colorado	13%	12%
Connecticut	8%	8%
Delaware	19%	27%
District of Columbia	0%	0%
Florida	5%	7%
Georgia	17%	21%
Hawaii	30%	34%
Idaho	34%	–
Illinois	11%	13%
Indiana	21%	23%
Iowa	42%	42%
Kansas	34%	38%
Kentucky	40%	45%
Louisiana	26%	29%
Maine	40%	42%
Maryland	5%	–
Massachusetts	0%	–
Michigan	17%	18%
Minnesota	25%	34%
Mississippi	55%	61%
Missouri	25%	35%
Montana	65%	73%
Nebraska	39%	39%
Nevada	9%	8%
New Hampshire	34%	50%
New Jersey	0%	0%
New Mexico	34%	41%
New York	7%	8%
North Carolina	28%	33%
North Dakota	51%	63%
Ohio	19%	21%
Oklahoma	34%	38%
Oregon	21%	24%
Pennsylvania	15%	19%
Rhode Island	0%	0%
South Carolina	23%	26%
South Dakota	52%	52%
Tennessee	25%	29%
Texas	11%	12%
Utah	10%	–
Vermont	64%	68%
Virginia	12%	17%
Washington	11%	16%
West Virginia	44%	48%
Wisconsin	25%	26%
Wyoming	69%	66%

– Reliable data not available. (See footnote 7.)
Note: Children in column 1 are children under 18 related to the head of household; data are from published Census tables from the 2008 American Community Survey. Children in column 2 are estimated children under 17 who would lose all or part of the CTC under the higher refundability threshold, based on analysis of the 2008 American Community Survey public use file.

Table 3:

Percent of Earners Earning Less Than $30,000 a Year, 2006-2008

	In Metro Areas	In Nonmetro Areas
United States	49%	60%*
Alabama	54%	61%*
Alaska	45%	53%*
Arizona	50%	62%*
Arkansas	57%	66%*
California	48%	57%*
Colorado	47%	55%*
Connecticut	41%	44%*
Delaware	45%	52%*
District of Columbia	39%	—
Florida	52%	62%*
Georgia	49%	62%*
Hawaii	44%	49%*
Idaho	55%	63%*
Illinois	47%	59%*
Indiana	52%	56%*
Iowa	52%	58%*
Kansas	49%	62%*
Kentucky	52%	62%*
Louisiana	54%	60%*
Maine	53%	60%*
Maryland	40%	46%*
Massachusetts	43%	47%
Michigan	50%	60%*
Minnesota	43%	58%*
Mississippi	55%	64%*
Missouri	51%	65%*
Montana	59%	62%*
Nebraska	51%	61%*
Nevada	47%	51%*
New Hampshire	43%	50%*
New Jersey	41%	—
New Mexico	56%	62%*
New York	46%	58%*
North Carolina	52%	60%*
North Dakota	57%	58%
Ohio	51%	58%*
Oklahoma	55%	63%*
Oregon	52%	60%*
Pennsylvania	49%	58%*
Rhode Island	48%	—
South Carolina	54%	61%*
South Dakota	55%	62%*
Tennessee	53%	63%*
Texas	53%	62%*
Utah	55%	60%*
Vermont	50%	56%*
Virginia	44%	59%*
Washington	46%	60%*
West Virginia	56%	62%*
Wisconsin	49%	56%*
Wyoming	53%	53%

* Metro-nonmetro difference is statistically significant at the 90 percent confidence level.
— All portions of state are metropolitan.
Source: 2006-2008 American Community Survey Table B20001. Additional calculations by CBPP.